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The MAGAZINE *of* WALL STREET

and BUSINESS ANALYST

MAY 23, 1959

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IS GOLD CRISIS
for the UNITED STATES
NOW INEVITABLE?

BY MICHAEL STEPHEN

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Outlook for
INTERNATIONAL OILS
EMERGING FROM
CAIRO CONGRESS

BY JOHN H. LIND

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AIRCRAFTS In New Stage
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AIRLINES - Destination: Profits
- But Is Runway Cleared for Takeoff?

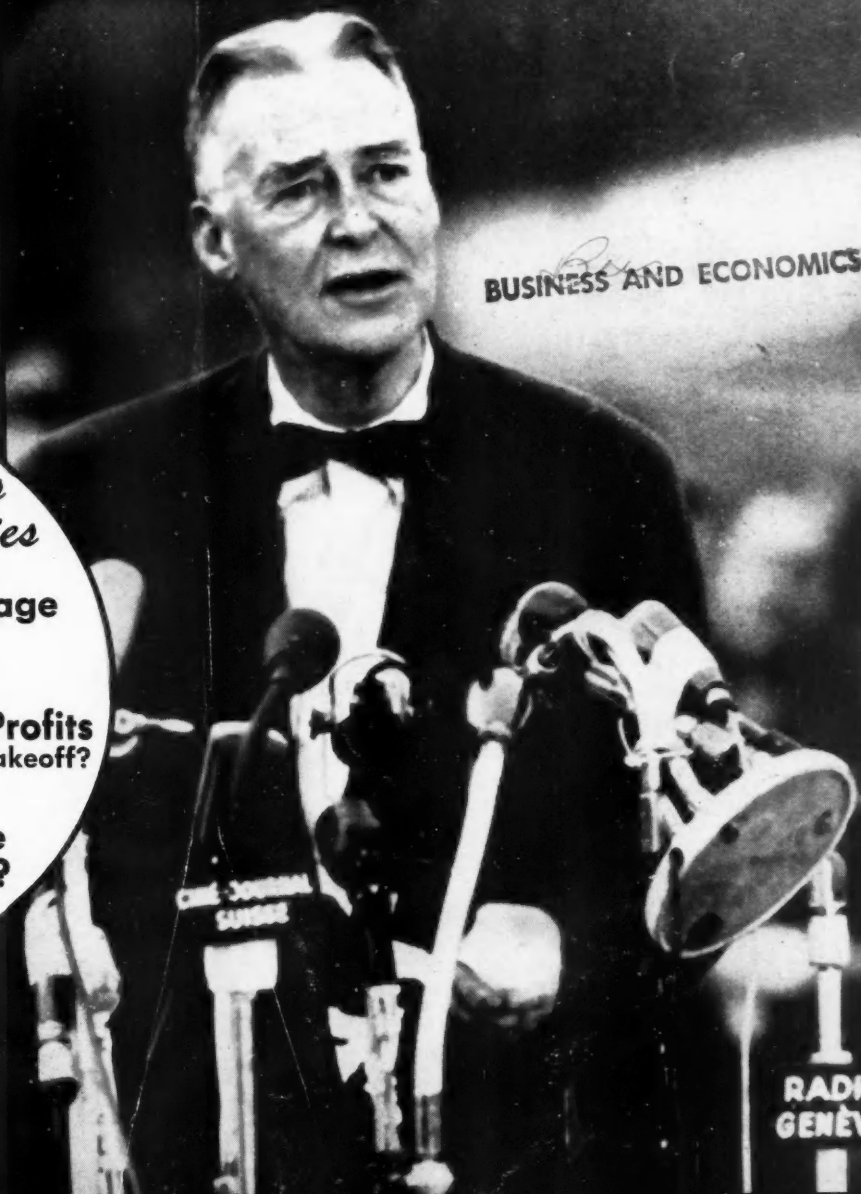
BY JONATHAN DODGE

**Good Cheer for the
DISTILLERS** In 1959?

BY CHARLES GRAYSON

★
Double-Barrelled Investments in...
COMPANIES With
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BY ROBERT B. SHAW



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delivered this year...
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Cover photo: U. S. Secretary of State Christian A. Herter speaking in Geneva, after arriving for the East-West Foreign Ministers meeting.

Cartoon page 253: Courtesy The Providence Evening Bulletin

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Where should your money be in today's market?

Stocks, bonds, cash — or a well-balanced mixture of all three?

And just which stocks? Or just which bonds? And what do you mean by "well-balanced"?

There's no one answer to questions like those which would fit every investor's situation. The right answer for one investor might be wholly wrong for the next.

Certainly some people with a sizable amount of capital invested in growth stocks that yield only 2% or so might well consider tax-exempt returns of 3½% from municipal bonds . . .

On the other hand, some people with most of their money tied up in fixed income issues would do well to consider common stocks as a long-term hedge against inflation.

Even though stock prices stand at historic highs . . .

Even though bond yields have rarely been more attractive.

The right investment answer for you depends wholly on your own financial situation and your own investment objectives.

If you'll give us those facts though, bring along a list of your present holdings — together with the prices you paid — any one of our Account Executives will be happy to see that you get the most thoughtful answer we can give you to "Where should your money be in today's market?"

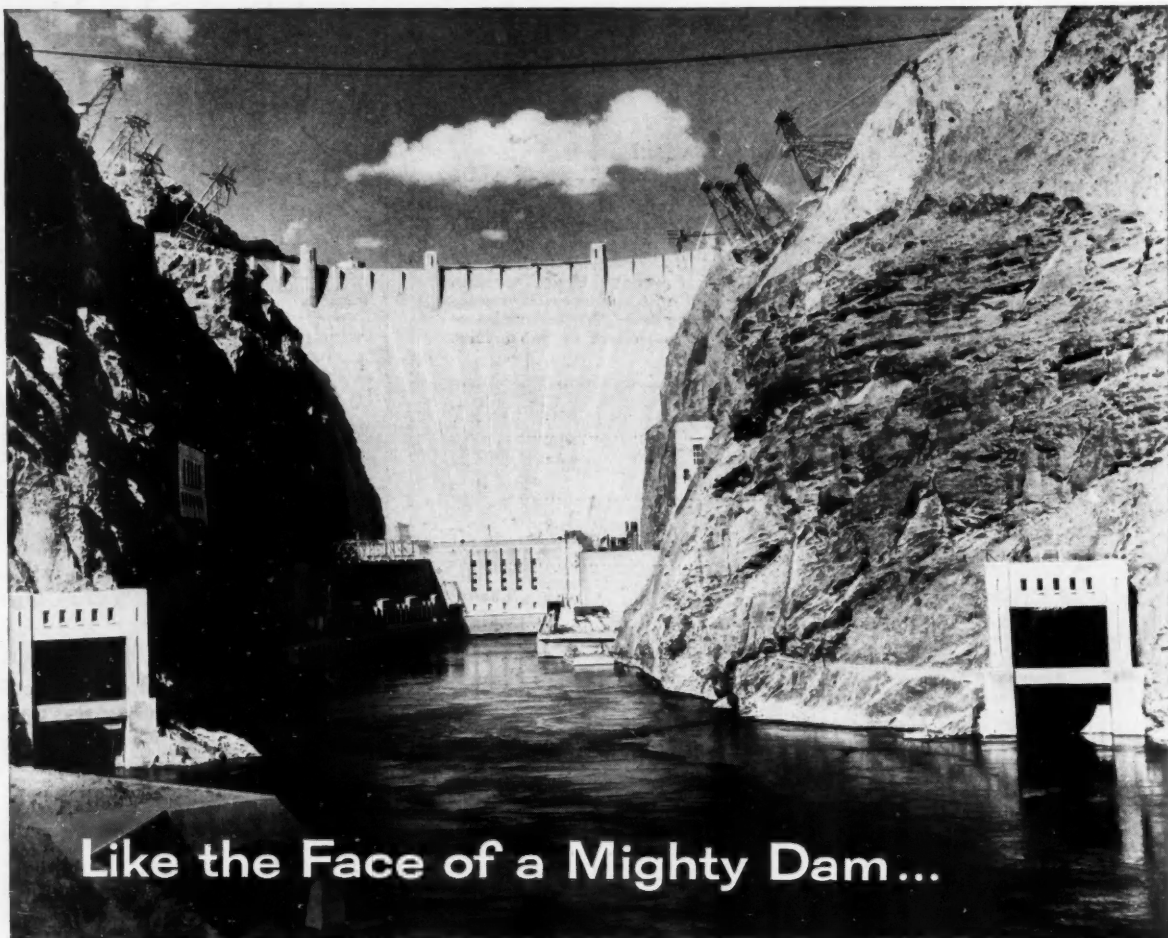
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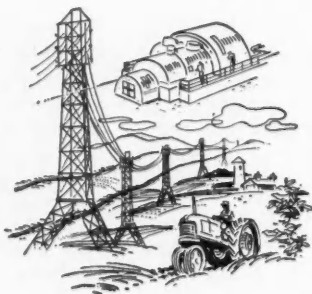
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than meets the eye!**



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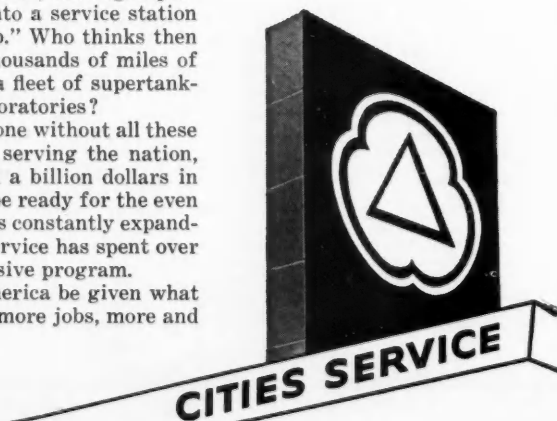
OIL'S FIRST CENTURY
BORN IN FREEDOM
WORKING FOR PROGRESS

Factories hum... jobs are created... commerce thrives, thanks to abundant, low-cost power. Viewing the face of a dam, however, these facts are often forgotten... obscured by the mighty spectacle of the dam itself.

Also forgotten... if known at all... are the facts of oil company enterprise, making it possible to drive confidently into a service station with an order to "fill 'er up." Who thinks then of far-off drilling crews, thousands of miles of pipelines, giant refineries, a fleet of supertankers, or modern research laboratories?

Yet the job could not be done without all these things. To do its share in serving the nation, Cities Service has invested a billion dollars in modern facilities... and to be ready for the even bigger job of tomorrow, it is constantly expanding. In two years, Cities Service has spent over \$350 million on its progressive program.

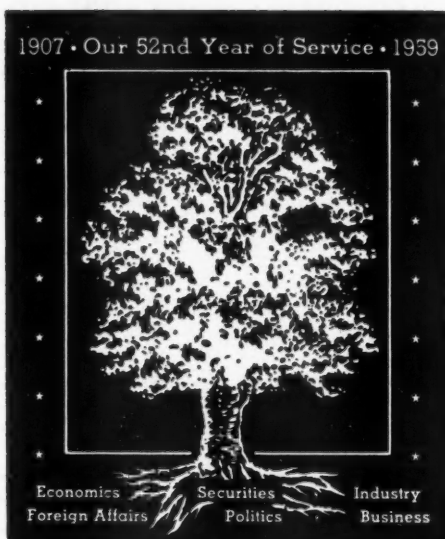
Only in this way can America be given what it must have for progress—more jobs, more and better petroleum products.



THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, Editor-Publisher

1907 • Our 52nd Year of Service • 1959



The Trend of Events

THE NEW DEAL AND LORD KEYNES . . . The only real difference between the Democrats and Republicans today is that the former are devotees of the Keynes Theory of "spending ourselves into prosperity", and the latter, in the main, are the advocates of a sound money policy. And — where they are not — the reason is politics.

And, while the Keynes philosophy had its use as a hypodermic to stimulate the economy — as President Roosevelt adapted it after the severe depression bottomed out in 1932 — that is all it should be used for.

That this is a logical conclusion is clearly shown by the circumstances of our economy and our finances today, which point to the failure of the Keynes Theory as a fundamental basis for the conduct of economic and financial affairs. For, in actual practice, the Keynesian concepts create a dual economy largely dependent on the government for high level business activity (with all that it implies in waste). This inexorably leads toward centralized control by government, making it responsible for full employment — with deficit spending a virtue.

This is proven in the light of (1) the size of our government debt — (2) the astronomical sums appropriated by Congress regardless of deficit spending — (3) the value of the dollar, pushed lower every day by the wage-price spiral, that is offering foreign competition a field day in our home markets, and cutting deeply into our exports —

causing us to lose our favorable balance of trade, which necessitates an out-flow of our gold. *This has shaken the prestige of the United States and confidence in our dollar.*

This handwriting on the wall calls attention to the inherent dangers in the Keynes Theory. It explains why President Eisenhower is urging greater dependence on free enterprise — cuts and elimination of wasteful subsidies — and earnest efforts toward an essential pay-as-you-go policy.

We refer you to the feature in this issue, "Is Gold Crisis for the United States Now Inevitable?", by Michael Stephen, an outstanding expert, which subscribers will find of great interest and practical value — to be followed in the next issue with another feature by Mr. Stephen, going thoroughly into our fiscal policy — government bonds — and the various elements that need to be considered today in order that we may work out a sound solution for our problems.

A critique of the Keynes Plan is found in a most interesting and penetrating new book, "The Failure of the 'New Economics'," by Henry Hazlitt, an

eminent economist, who, in a concise and clear manner, explodes the Keynesian theories point by point in a most practical fashion. We recommend it to our readers, particularly the chapter dealing with Creeping Inflation and Galloping Wages, as of timely interest in the light of the steel strike now under negotiation.

This book makes its appear-

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL and INVESTMENT COUNSELLORS: 1907—"Our 52nd Year of Service"—1959

ance at a propitious time, as business is moving up and unemployment has been cut, without the government having indulged in the various panaceas advocated by the New Dealers.

EDITORIAL FROM A VIRGINIA FARMER . . . In the light of the above, we believe it well worth while to reprint this signed letter from one of our subscribers:

"The Magazine of Wall Street

"Gentlemen:

"Your article, 'The Real Threat of Nationalization for Electric Power', by McLellan Smith, was so informative and current that I would like to order 10 copies of your March 14, 1959 issue.

"Last year our County Farm Bureau Federation showed the film 'Waste Not Want Not' at a membership meeting. This film, made for the Citizens Committee for the Hoover Report, clearly pictures the waste, duplication and the growing power of the Federal government and the dangers therein.

"Our county is in the T.V.A. watershed, but not in its power service area yet. Appalachian Electric Power Co. furnishes us with an abundance of electricity, and having completed a new station in an adjoining county at a cost of \$55 million last year, we can look forward to ample power for our needs in years to come.

"Contrast this with T.V.A. In Tennessee there is a shortage of power and they are asking Congress for a bill to sell bonds to finance an expansion of productive facilities, and many Congressmen yelling to enlarge T.V.A.'s service area. This at a time when they cannot supply the customers they have.

Yours truly,

J. B. W. . . . , Virginia"

This letter points up the contrast between self-sustaining, tax-paying, private industry, and the inadequacy of Government operated entities . . . and is particularly timely in the light of T.V.A.'s request for permission to carry on substantial future financing to supplement the vast sums already spent, thereby duplicating the abundant facilities already supplied, as this letter portrays

NEW VIGOR FOR THE FRANC . . . In a short space of time, De Gaulle has reached many of his goals and may even be on the way now to settling the Algerian problem.

His latest move to free the franc from major restrictions is another step toward strengthening French currency. It has produced the heaviest influx of gold into francs since the gold devaluation . . . and now, with the nation's trade balance emerging from the red last month, the French economy is moving ahead in a manner that has not been witnessed since Raymond Poincare was Premier, after World War I.

Incredible as it may seem, Paris is now said to be occupying fourth place in world financial markets. This is another indication of what can be accomplished through confidence engendered by a sound, constructive policy, under free enterprise.

THE SHIFT FROM BONDS TO STOCKS . . . It was the pressure of funds seeking investment in equities which gave impetus last week to a recovery move-

ment that carried the Industrial Average to another all-time high. However, this demand was, in a large measure, based on the continued flight of capital from fixed interest obligations to equities as a hedge against a possible further decline in bond quotations, and because renewed tightening of interest rates at the week-end appeared to foreshadow an impending rise in the rediscount rate and additional liquidation in government and corporate issues.

In fact the extent of the preference for stocks instead of bonds was forcefully illustrated in the Treasury's recent financing. On the offering of attractively priced one-year securities as replacement for a maturing \$1.8 billion issue, holders of 31 per cent declined to accept the new obligations. Accordingly, the Treasury was compelled to meet the maturity with cash. This outcome naturally tends to enlarge the amount of funds seeking employment in other than Treasury issues. The nation's money supply already has expanded sharply in recent months, as shown by the April figures which disclosed an addition of \$700 million to bank deposits and currency.

TIGHTER MONEY RATES AHEAD . . . As a result of the action taken by major lending institutions in raising the prime rate last week to 4½ per cent from 4 per cent, it seems likely that interest rates may push higher elsewhere and set the stage for another upward revision in rediscount rates in the Federal Reserve system. Although this development testifies to urgent need for funds that typifies industrial prosperity, it suggests possible disturbances in the months ahead for borrowers unable to obtain capital. Thus, tighter money rates may have a restraining effect on construction which had held out promise of a possible record volume for 1959.

The stock market too will feel the possible restrictive influence of higher interest rates, on top of the potential handicap that will arise when the new rules adopted by the Federal Reserve Board governing trading become effective at mid-June. The long awaited tightening of regulations governing "substitutions" in restricted margin accounts was not quite so strict as some had feared — and relief over the announcement of the proposed adjustment appeared to have sparked demand for stocks last week. Nevertheless, enforcement of strict supervision over bank loans used in the securities markets, may have a retarding effect on speculation in convertible bonds as well as in high priced equities.

STOCK GAMBLING ABROAD TOO . . . Responsible quarters in Europe are showing the same concern in regard to stock speculation as we are in this country.

And it is even taking place in Switzerland of all places, where, as one Swiss banker expressed it, "people have just gone crazy." Responsible leaders in the various countries — in Holland, in Italy, in London — have expressed great concern regarding the wild scramble to buy any kind of stock no matter how speculative.

Many stocks are already too high, and rocketing without either economic or political reasons, and others are being bought merely on the strength of rumors which few take the trouble to check. The tips are flying fast and furious and the public is buying regardless of merit or value.

For example, on an (Please turn to page 308)

As I See It!

by Charles Benedict

MR. HERTER AT GENEVA

ONE of the most interesting things that has emerged from the Foreign Ministers' Conference is Mr. Herter's deft handling of the Russian attempts to delay procedure by holding out on inconsequential issues — and his evident reliance on the press to call attention to the trivia of their demands.

By these means he showed up Russia's lack of seriousness in dealing with the matters upon which world peace depends — and made the Soviet Union look ridiculous in the eyes of the great masses of people everywhere.

The result was to relegate to the back pages Mr. Gromyko's "nyet" in response to the program on Berlin submitted by the West, and to shrug off his demands that the Soviet plan he brought to the conference should receive unqualified acceptance.

Thus, the whole atmosphere at Geneva was changed, and the peals of laughter from the West deflated the expected blast from Moscow in which Mr. Khrushchev threatened the destruction of the West and the rest of the world unless his terms were met. It was interesting to note too that his remarks, like Mr. Gromyko's, were relegated to small space on the inside pages of the newspapers, quite a difference from the front page displays that have greeted his slightest explosion heretofore.

By the time that Mr. Khrushchev, et al, get used to the tactics of Mr. Herter, much may be accomplished. In fact, it may prove to be a great advantage

to have a Secretary of State who is en rapport with the European peoples and speaks their language. Moreover, as one of Ex-President Hoover's team, when he was food administrator in Europe after World War I, he has had plenty of experience with the rough and tumble

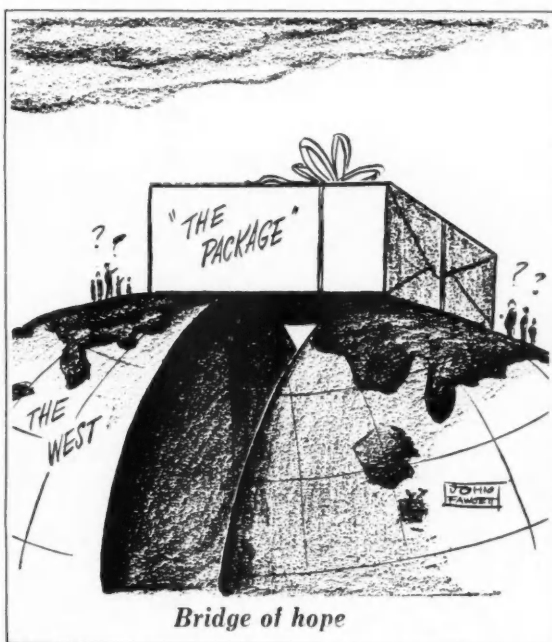
of European politics and bargaining. Maybe that is why he made such a fine senator and an excellent Governor for the State of Massachusetts.

And if this beginning is an indication of what is ahead, the British press will have to swallow their words about the "sick men" that run the United States.

With the new plan submitted by Secretary Herter, the West seems to be off to a good start, with the evident attempt to make this a step to the Summit Conference, that will not only solve the Berlin situation, but may open the door to achieving a permanent settlement in Europe. This is the most sweeping and ambitious plan yet sponsored by the West, and seems also to have general acceptance not only by the Big Three, but West Germany too. It

apparently contained much of interest for the Soviet Union, to have Andrei Gromyko agree to study the proposals instead of flatly rejecting them out of hand, as he is always expected to do.

And by some miracle, the end of the cold war from which the whole world has been suffering may be in sight.



More Market Excess Building Up

Contending market forces remain in fairly close balance, preventing more than moderate swings in the averages at this time. Probably there will be more excess in speculation and stock valuations before there is much less. Important general vulnerability is not yet indicated. Results will continue to hinge mainly on investment selectivity.

By A. T. MILLER

How's the market? This familiar question can elicit no general reply today. The answer of a holder of rising stocks is "Wonderful." A man with losses on recent purchases shakes his head dolefully. If one's stocks are doing little either way, as many are, the reply is "so-so" or maybe "disappointing."

Every few weeks — at times from day to day — the newspaper headlines and radio comment hail "new all time highs in stock prices." That is true of the Dow industrial average, of similar measures and of most composite price indexes. It is not true of the utility or rail lists, which make up a sizable section of the market, or of various industrial stock groups.

The previous irregular, somewhat sluggish 1959 uptrend of the widely watched senior Dow average has been maintained up to this time. The pattern is a few weeks of advance, followed by a few weeks or days of pause or reaction, then another spurt which runs out of steam in no great time. Anything more dynamic could hardly be called for at this stage, in view of the large prior rise; and the extent to which the future has been discounted.

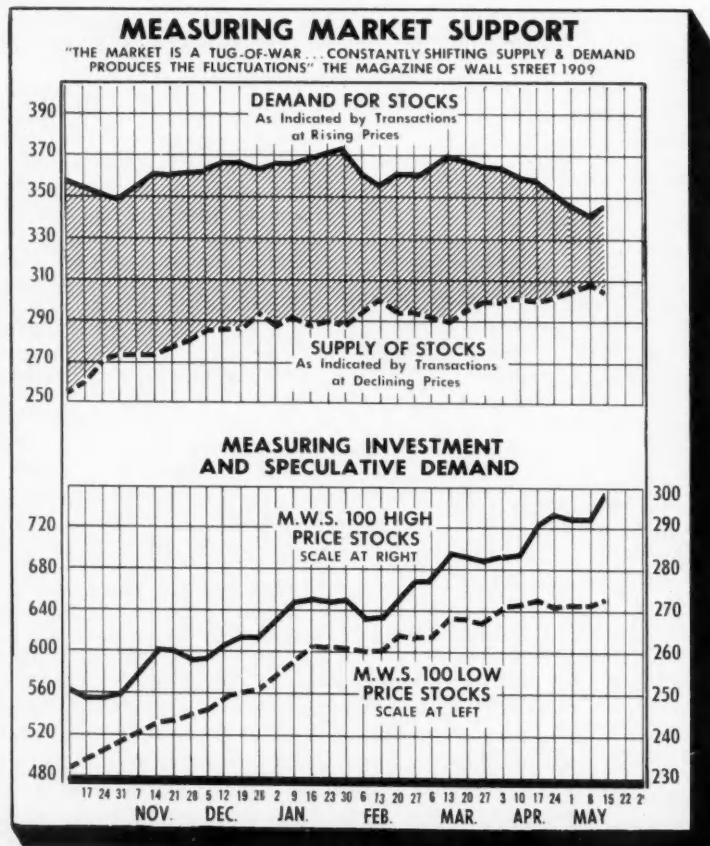
The Recent Performance

From an April 27 high of 629.87, the average dipped about 14 points to May 7, then rose last week to a new high a shade above 637. Evidence of resistance developed late in the week, continuing to our press closing time. To bring the record up to date, the net gain from the start of the year to the latest high is about 9%, comparing with 33% in nine months of 1958 spring-summer-autumn rise. Rails, which "went to town" in 1958, have gone nowhere since mid-January. The mid-March high for utilities still stands.

When the visible facts of business activity and earnings look good — or bad — it can be worth while to check your hopes or fears against what the technical indicators show. Right off the bat, it can be noted that they show a market which, on an over-all view, is neither sick nor in blooming health and vigor. That implies a market which may well continue to need time out for rest at fairly frequent intervals.

As charted on this page, the spread between demand for stocks and supply of stocks widened somewhat last week. This indicator has yet to flash a red light, but the demand line especially leaves a good deal to be desired. The volume indications are not impressive. The industrial list's new highs last Wednesday and Thursday were scored with trading activity lower than it was in prior periods of market strength.

Only slightly more stocks gained ground last week than retreated, making it the fourth week of close balance.



The number of issues recording new highs remained relatively low. Among recent poor-acting stock groups, there were rallies of presently doubtful significance in steels, food stores and gold mining. A special factor of strength for some time, the chemicals reacted easily in the final session last week, and may need consolidation. For the present, some of the hot-rod electronic-space-age stocks are off 10% to 20% from recent highs.

The push that took the Dow to new highs May 13-14 was supplied mainly by the two chemicals in the average, both making new all-time peaks; also by the two auto stocks, at new tops for this cycle but under their 1955 highs; and by what has so far been a two-day rally in the three steels. Some fresh upside leadership seems needed.

There is no need to dwell at length on business developments, which are on the favorable side. That is so of industrial production reports, employment, railroad traffic, manufacturers' sales and new orders, construction volume, personal income, automobile sales and retail demand generally. Some third-quarter letdown, with or without a steel strike, seems likely but will surprise nobody.

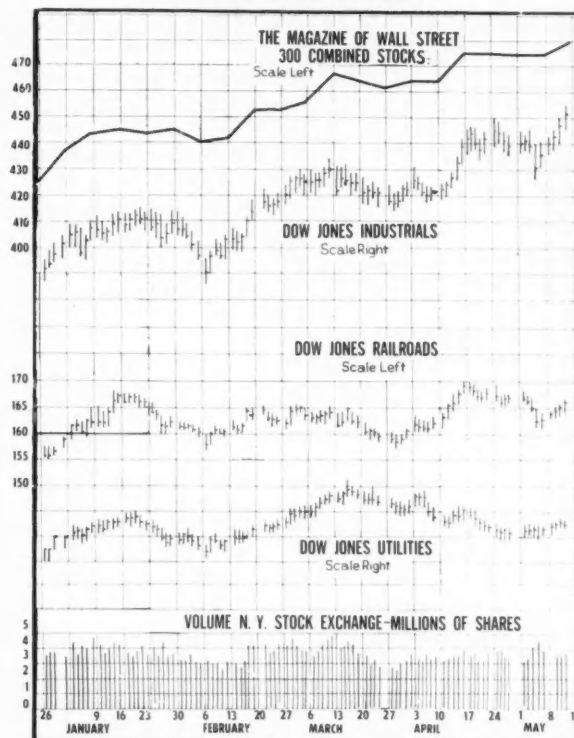
It may be that the fastest and biggest part of the business expansion cycle — amounting to more than a full recovery to the pre-recession levels in about a year — has been seen; but there is nothing in sight to challenge the general view that business should trend generally upward at least well into 1960.

Present indications suggest a 30% to 40% 1959 gain in total corporate profits from the 1958 recession level. That could mean from \$37 to \$39 per share on the Dow industrial average, against 1957 peak of \$36.08. It could mean dividends, based on past payout ratios, of roughly \$23 to \$24 a share, against a peak \$22.99 in 1956.

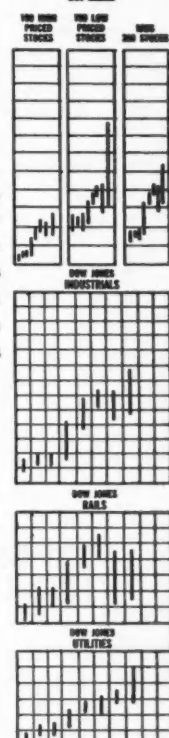
On these projections, the average's current price-earnings ratio is around 16 to 17, against 14.4 and 15.6, respectively, at the 1957 and 1956 market highs: the yield basis 3.6% to 3.8%, against 4.2% and 4.4%, respectively, at the 1957 and 1956 highs, both approximating a 520 level for the average. Probably the greater part of this cycle's gain in earnings will have been seen by mid-1959, considering the taking up of slack capacity and probable later cost trends.

Considerably higher market valuations than in the past are rationalized by basic growth of long-pull demand for equities, limitations on the supply side, reduced appeal of bonds, etc. Emphasis on inflation alone is an important element in the ration-

TREND INDICATORS



YEARLY RANGE 1951-1959



alization. "It's different now because of inflation." It was different in 1929 because of the "New Era of lasting prosperity."

Is It Inevitable?

There has been talk of "inevitable inflation." Why need it be inevitable here when orthodox fiscal policies are working so well for Britain, France, Germany and Japan, among others? Does it stand to reason that our Government can tolerate continuing weakening of the dollar in this world, while even the French franc gains? We think not.

Meanwhile, the consumer price index has been stable for many months. Moderate increases in more sensitive prices remain about normal for a recovery period. The same is true of expansion of the money supply caused mainly by private borrowing, with bank holdings of Treasury debt lower than a year ago. Congress is not running hog-wild on spending. A budget balance for the 1959-1960 fiscal year is becoming increasingly possible. If the steel wage settlement proves reasonable, some subsiding of the stock market's inflation fever would seem in order.

The case for holding sound stocks that were bought at opportune levels remains stronger than that for new buying. In view of the cumulative buildup of excess, and buying should be with deliberation and care, without exhausting cash reserves.

Monday, May 18.

IS GOLD CRISIS FOR THE UNITED STATES NOW INEVITABLE?

By Michael Stephen

- ▶ Current position . . . and ominous future outlook
- ▶ The weakening in our international balance of payments position
- ▶ Why \$3.3 Billion foreign aid program further intensifies danger to our gold-dollar position—and the solution
- ▶ How dislocation of established trade relations are being threatened
- ▶ Common sense remedies available for solution of mutual aid problems that will best serve United States and rest of world

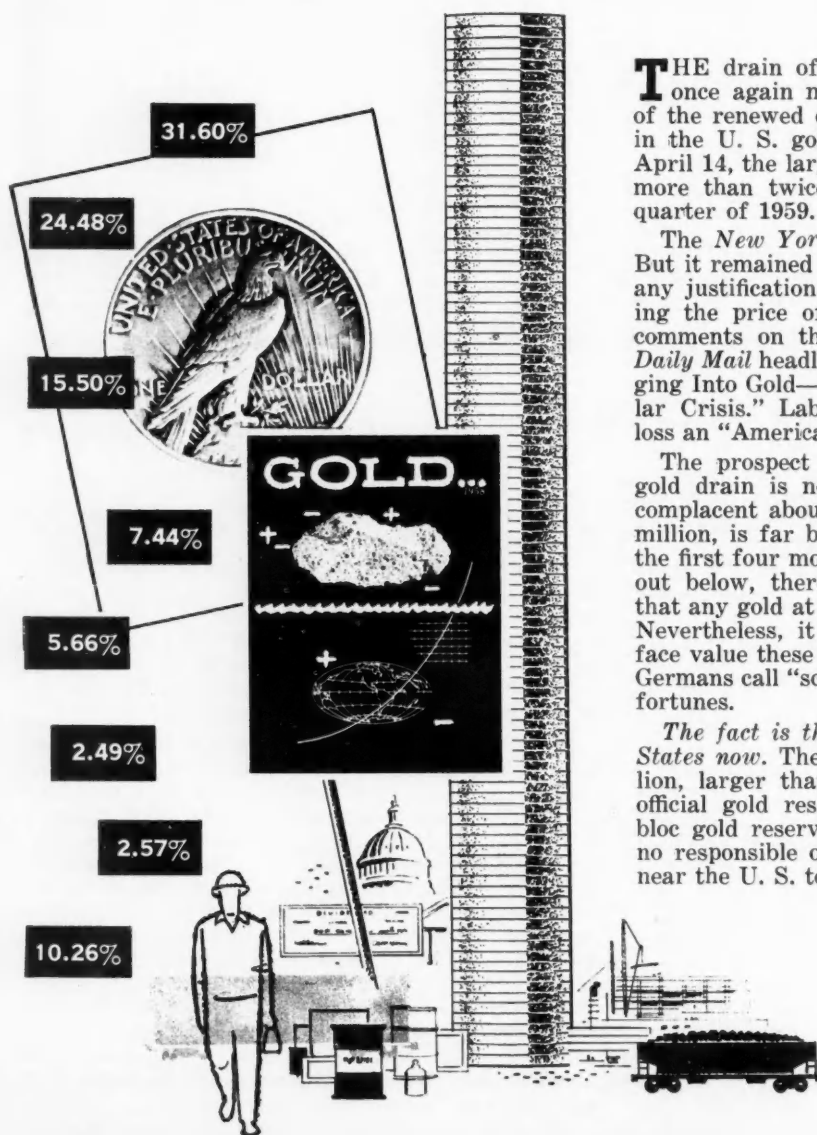
U. S. Gold Losses

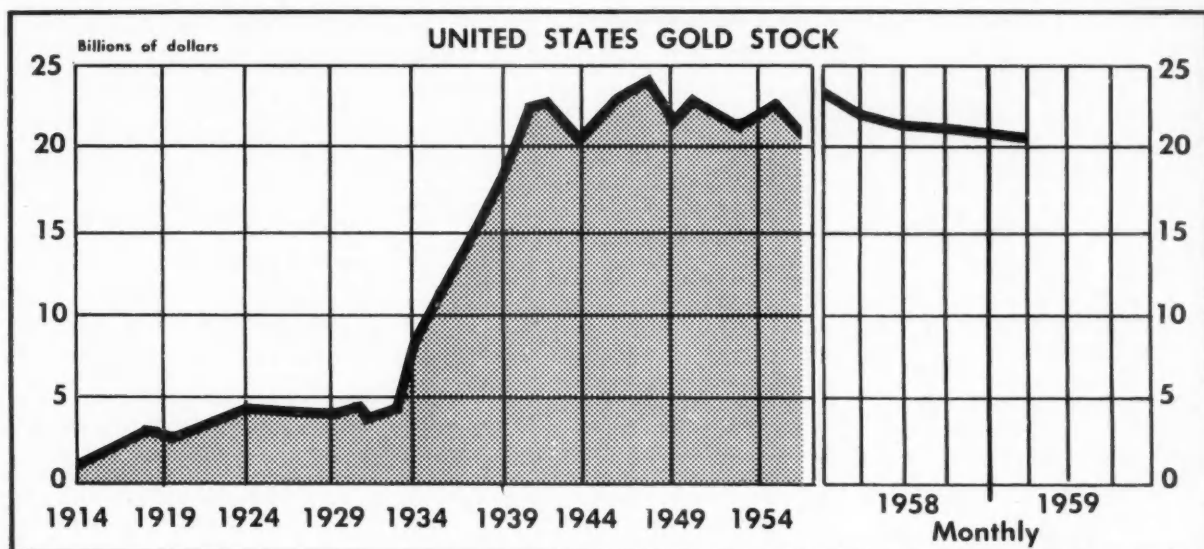
THE drain of gold out of the United States is once again making the front pages. The cause of the renewed concern is the \$186 million decline in the U. S. gold stock in the three weeks since April 14, the largest drop since last September and more than twice the decrease in the entire first quarter of 1959.

The *New York Times* put the story on page 1. But it remained for the British press, eager to find any justification for devaluing the dollar and raising the price of gold, to make the most colorful comments on the gold outflow. The Conservative *Daily Mail* headlined its article, "United States Digging Into Gold—Eisenhower May Act to Avert Dollar Crisis." Labor's *Daily Herald* called the gold loss an "American Gold Shock."

The prospect of a renewed acceleration of the gold drain is nothing that any American can be complacent about. The drop so far this year, \$279 million, is far below the \$785 million reduction in the first four months of 1958 but as will be pointed out below, there are strong reasons for concern that any gold at all should be moving out this time. Nevertheless, it should be ridiculous to accept at face value these British manifestations of what the Germans call "schadenfreude," joy at another's misfortunes.

The fact is that no gold crisis faces the United States now. The U. S. gold stock is still \$20.2 billion, larger than the combined total of all other official gold reserves in the Free World. (Soviet bloc gold reserves are closely guarded secrets but no responsible observer would put them anywhere near the U. S. total.)





Furthermore, of the \$20.2 billion U. S. gold stock, no more than \$11.7 billion is required to satisfy the 25% legal reserve against Federal Reserve note and deposit liabilities. With another \$400 million accounted for by Treasury holdings, this leaves about \$8 billion of surplus gold in the hands of the Federal Reserve and available to meet foreign demands. The following table sets out the Federal Reserve's gold position as of the latest available date.

TABLE I — LEGAL RESERVE POSITION

Twelve Federal Reserve Banks Combined, as of May 6, 1959

Total Gold Certificate Reserves	\$19,662,744,000
Federal Reserve Notes	\$27,016,378,000
Fed. Reserve Deposit Liabilities	19,835,142,000
Note & Dep. Liabilities Combined	\$46,851,520,000
25% Gold Reserve Requirement	11,712,880,000
Surplus Gold Reserves	\$ 7,949,864,000

The Longer Perspective

It is worth taking a long look back to get the gold stock perspective. Though down from its alltime peak of \$24.7 billion in September 1949, our gold stock of \$20.2 billion is still rather high when compared to levels prevailing in most of the forty-five years since the Federal Reserve System was established.

The chart shows that although the gold stock is now at the lowest levels since 1946 it is far above anything we had before World War II. It may be surprising to some alarmists that, as the chart indicates, we got along with a gold stock of no more than \$4 billion in the 1920's. This is all the more impressive when one remembers that in those days gold was in circulation and the U. S. gold stock not only had to stand up to the possible demands of foreign central banks and Treasuries (as it does today) but also the possible needs for gold of its own citizens.

Moreover, the U. S. gold stock now is actually larger in relation to the money and credit structure which the gold base supports. As a proportion of total public and private debt the gold stock amounted to 2.7% at the close of 1958, compared to 2.5%

or less in the 1920's. As a percentage of total deposits and currency, the gold stock was 8.4% in 1958, against 8.2% in the mid-1920's. Clearly the current gold position does not justify panic.

Mr. Per Jacobson, Chairman of the International Monetary Fund, gave a calm and judicious appraisal of the recent outflow of gold from the United States before the American Bankers Association monetary conference in London. Granting that the gold outflow "represents a warning about the trend of costs and prices" in the U. S., he went on to say: "I do not think the United States gold outflow represents any real threat to the dollar. With the U.S.A. possessing more than half the world's gold stock it would be absurd to say this."

Future Trend More Ominous

Nevertheless, the acceleration of the gold outflow raises some ominous questions. Most unsettling is the fact that the recent \$186 million withdrawals took place even though money market investments were offering interest rates of 3 or 4% or better, the best rates in more than a generation. In other words, foreign desires for gold were strong enough to override the attraction of handsome rates of interest for leaving dollar balances here.

This is the great difference from 1958 when the gold outflow was much larger, running to \$2.3 billion for the full year. The bulk of the 1958 gold loss left the country when interest rates on short-term investments were down around 1%. Thus, it was not surprising for the British, the main takers of gold in 1958, to concentrate on rebuilding gold holdings to more "normal" levels. Little interest income had to be sacrificed. But this year Japan as well as the United Kingdom are turning their backs on good interest rates. This is a disquieting situation.

There is not much question but that we shall be in for trouble if foreign nations are so concerned about the future value of the dollar that they want to convert their dollars into sterile gold no matter how high a rate of interest we offer on short-term

Table II—U. S. Balance Of Payments
(In billions of dollars)

	First Quarter			Full Year		
	1957	1958	1959	1957	1958	1959est.
Merchandise exports	\$ 5.1	\$ 4.0	\$ 3.8	\$19.3	\$16.2	\$16.5
Merchandise imports	—3.3	—3.1	—3.5	—13.3	—12.9	—13.4
Excess of exports	+1.8	+0.9	+0.3	+6.0	+3.3	+3.1
Net balance on services	+0.5	+0.5	+0.6	+2.4	+1.8	+1.9
U.S. Govt. disbursements						
Military Outlays	—0.8	—0.8	—0.8	—3.1	—3.2	—3.0
Economic aid grants	—0.4	—0.4	—0.5	—1.8	—1.8	—1.8
Loans and credits	—0.3	—0.2	—0.1	—1.0	—1.0	—1.0
Net private capital flow	0.0	—0.6	—0.2	—2.0	—2.2	—2.5
Total U.S. Balances	+0.4	—0.6	—0.7	+0.5	—3.1	—3.3
Foreign dollar balances	—	+0.2	+0.6	+0.3	+0.8	+3.3
Foreign gold purchases	—0.4	+0.4	+0.1	—0.8	+2.3	

dollar investments. Foreign nations are earning dollars at a record rate this year, not to mention their record accumulation of dollar assets.

A Run on the Dollar?

The biggest danger and one often referred to by alarmists is that of a run on the dollar, massive conversions of short-term dollar balances into gold. The \$8 billion of surplus gold reserves we have provides a considerable buffer against this danger. *But it must be conceded that the total of foreign short-term dollar assets far exceeds what we have, to meet possible claims.*

On the best estimate available, foreign governments and central banks hold \$8.7 billion on deposit in U. S. banks or in short-term investments such as Treasury bills quickly convertible into cash. Besides this, private business firms and individuals abroad are estimated to hold \$6.3 billion in short-term dollar assets. These cannot be used directly to acquire gold in the United States but everyone understands that central banks and governments could take over their nationals' private dollar holdings for conversion into gold.

It has often been said that any large scale conversion of these assets into gold is neither likely nor practicable. The point is made that many billions of the total represents working balances held here to finance essential commercial and banking transactions. Any large scale conversions into gold would be extremely upsetting to world trade and commerce.

The trouble is that if the responsible officials in central banks and Treasuries abroad come to feel that a devaluation of the dollar is inevitable they might scramble for gold to get it before we raise the price. *If we should see further large gold withdrawals in the balance of 1959, despite prevailing high interest rates in the U. S., there will be real cause for concern.*

The last official statement we have had on what the U.S. might do if faced with a run on the dollar was given by then Treasury Secretary George M. Humphrey in July 1957. Testifying before the Senate Finance Committee, Mr. Humphrey suggested as one possibility an embargo on U. S. gold sales if foreigners attempted to convert all their dollar

assets into metal. While this might protect our gold holdings, it would destroy the standing of the dollar in the currency markets of the world. One can only imagine the panicky liquidation that would ensue all over the world once it became known that the U. S. Treasury would no longer redeem dollars in gold. If we want to continue as the leader of the Free World, we shall have to find a better way to protect the gold stock.

Foreigners Still Accumulating Dollars

Fortunately, the United States is not faced with a run on the dollar—yet. While some central banks have special reasons for wanting gold—Japan has had an abnormally small proportion of its external currency reserves in gold—most are still willing to accumulate dollars. *It is not generally realized that foreign nations are gaining dollars in their transactions with the United States at the rate of more than \$3 billion a year.* The gold loss since January 1 amounts to \$279 million. Thus, most of the funds foreigners are gaining are being invested in the U. S. money market, particularly in Treasury bills. It makes no sense to talk of a run on the dollar when only a small portion of current dollar earnings are being converted into gold.

It cannot be denied however that our basic international balance of payments position is weakening. The table compares the U. S. balance of payments in the first quarter of 1959 with the corresponding figures in the first quarters of 1957 and 1958. Most striking is the steady decline in our merchandise exports from \$5.1 billion in 1957 to \$4.0 billion in 1958 and then to \$3.8 billion in 1959.

In 1958, the decline in our exports from 1957 caused little alarm because it was understood that the Suez crisis and short crops abroad had pushed 1957 exports unusually high, particularly American oil and agricultural commodities. But most people expected exports to rebound from the 1958 low in 1959; their failure to do so is causing concern.

Pricing Ourselves Out of the Market

The shrinkage in U. S. exports has given support to fears that price inflation and the upward push of wage costs here are pricing our goods out of the world market. Significantly, about half the decline in exports is accounted for by decreased sales of manufactured goods, in which labor costs make up the major portion of selling price, though exports of cotton, coal, and petroleum are also down.

The picture is not entirely dark, of course. A recent news dispatch from Ireland quoted John O'Regan, president of the Irish Gas Association, as saying that it is cheaper for Ireland to buy coal from the United States than from Britain, its next door neighbor. The competitive power of U. S. coal is also underlined by the West German imposition of a special import tariff on coal to protect German coal producers. *(Please turn to page 303)*

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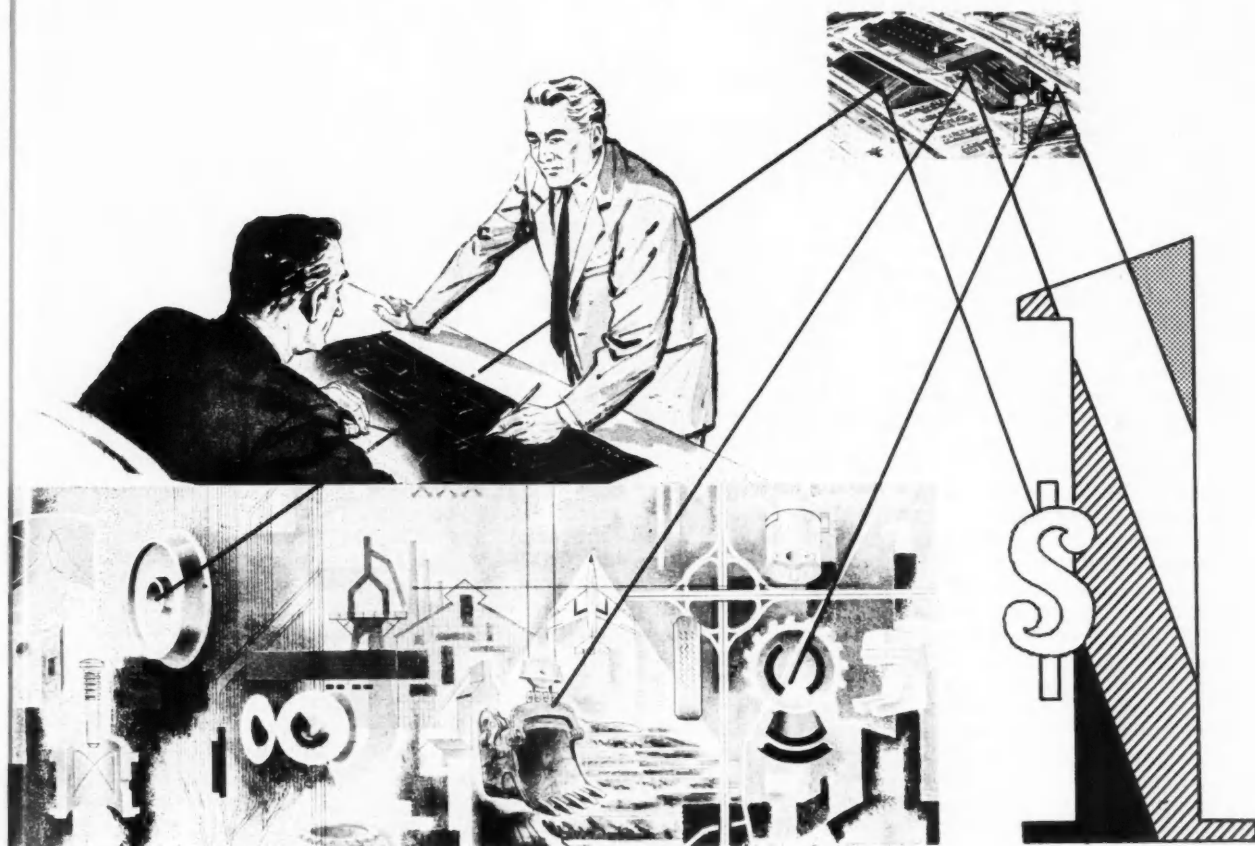
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Double-Barreled investments offered in...

COMPANIES WITH VALUABLE INTERESTS IN OTHER CORPORATIONS

By ROBERT B. SHAW

BECAUSE of the publicity attached to the government's current divestment suit, every person having even slight familiarity with the investment world must realize that each share of du Pont carries with it the indirect ownership of about one and four tenths shares of General Motors. It may not be quite so well known that each share of the hard-pressed Pennsylvania Railroad also carries a claim to one-fifth share of prosperous Norfolk & Western—this asset alone being approximately equivalent to Pennsylvania's current market value—or that each share of Bush Terminal also represents the ownership of one quarter share of General Cigar. The giant retailer, Sears Roebuck, owns substantial interests in half a dozen manufacturing enterprises, and Standard Oil (N. J.) holds control-

ling interests in separately operated Humble, Creole and Imperial Oil companies.

Why do these and other corporations, both large and small, hold such large blocks of stock in outside companies, sometimes in completely different industries? Such outside stockholdings are not without penalty, as affiliated corporations can file a consolidated tax return only when at least 80% control of subsidiaries is held. This means that dividend income from one company to another, e.g., General Motors to du Pont, and then to the shareholders of the latter, is subject not merely to double but to triple taxation. Again, most executives are self-confident enough to believe that they can employ funds more profitably in their own organizations than indirectly as outside investors in other companies.

With such good reasons against diverting corporate funds to external investments, there must also be convincing reasons why this practice is far from uncommon.

The Various Reasons For Outside Investment

But there is no single answer to the question; the reasons are diverse. Occasionally, large outside common stock holdings may be held as a pure investment. This is particularly apt to occur in the case of companies facing depletion of their major reserves or product obsolescence, which must in order to survive, gradually shift their capital into other industries. Railroads frequently retain substantial commitments in the stock of other roads, with which they desire to maintain friendly relations contributing to a favorable exchange of traffic. Mining and oil companies typically make heavy outside investments, simply as a matter of diversification. This process has continued far enough so that certain mining companies, such as American Metal Climax and Newmont, have become specialized investment trusts as much as operating enterprises. Some large corporations hold concentrated outside investments as a means of retaining some influence over their sources of supply.

A large outside investment may also be moving in either direction, i.e., expanding or contracting. The holding company may be accumulated stock with the objective of winning full control and turning the relationship into that of parent-subsidiary, as Merritt-Chapman & Scott did with Devoe & Reynolds and Penn-Texas finally accomplished with Fairbanks Morse. On the other hand, the holding company may be a former parent which is in the gradual process of spinning off its affiliates into public ownership, just as Commonwealth Edison did a few years back with Northern Illinois Gas.

One strange factor in outside corporate stockholdings is that they frequently run to opposites. It is understandable that railroads should invest in other railroads, oil companies in oil companies, steel companies in coal mines and steamship lines, and why Continental Can bought into Hazel Atlas Glass, and so on. And it is also understandable why Chesapeake & Ohio Railway should take a heavy position in Slick Airways, for a stake in air cargo; and Kennecott Copper becomes a large minority holder in Kaiser Aluminum, possibly representing an entry into the aluminum field.

Whatever the reasons, these outside holdings add diversification and occasionally give an opportunity to buy into another company indirectly on a more favorable basis than by the normal process. Where they are substantial they also add to the problem of analysis. It should be worthwhile to examine briefly a few of the principal companies with outside stockholdings, both because of their own interest and as examples of an apparently growing practice.

Allied Chemical's substantial although far from controlling interests in four other leading corporations (plus holdings of one preferred) amount to a current aggregate market value of \$77,000,000, or \$7.70 per Allied share. This is still, however, a pretty small tail attached to the big Allied dog, as the outside dividend earnings are only 24¢ a share

as contrasted with Allied's overall net of \$3.41 testifies. It may be surmised that Allied holds these stocks purely as an investment. Until very recently, the action of American Viscose has been disappointing, but the others have all turned in a very favorable performance. In its own right Allied is an interesting holding, and probably a little less fully priced in the current market than most stocks of similar quality.

Like most railroads, **Canadian Pacific** has representation in many other carriers, and it also controls extensive steamship, telegraph, air line and hotel operations in the northern Dominion. Its most interesting outside investment is, however, its holding of 8,412,000 shares, a 51% interest, in Consolidated Mining & Smelting. This represents approximately six-tenths of a share of Consolidated for each CP share, or a current market value of about \$13 included in every CP share for this outside holding. Consolidated, which has a large array of subsidiaries and affiliates of its own, is one of the world's largest producers of lead, zinc, silver and chemical fertilizers. The market for most of these products has been depressed for several years, and Consolidated, contrary to the stock trend in general, has drifted steadily down hill since 1955, showing only a narrow recovery this year. Accordingly, it has made no recent contribution to the value of CP stock. A natural resource enterprise like this, nevertheless, provides the best protection against inflation, and it may be taken for granted that these metals will eventually enjoy a revived demand. Consolidated, listed on the American Stock Exchange, can readily be purchased directly, but acquisition through the medium of Canadian Pacific looks like slightly better value.

Neither **Eastern Gas & Fuel Associates** nor its 58% owned **Virginian Ry.**, although both are listed on the Big Board, have been among the more popular stocks. Virginian Railway has recently entered the news, however, by virtue of its pending merger with Norfolk & Western. A smaller road than Norfolk but equally prosperous, Virginian extends from the West Virginia coalfields to tidewater at Hampton Roads. Aside from a dip last year, when fixed charges were still covered five times over, Virginian has shown steadily expanding gross revenue and net income throughout recent years. The forthcoming merger, on the basis of .55 share of Norfolk for each share of Virginian, will leave Eastern Gas & Fuel with 964,517 shares, or 13% control, of the consolidated road. This will mean about three-tenths of a share of the (new) railroad backing each Eastern Gas share, now selling at around 30. Eastern also sells coke and coal and, through the wholly owned Boston Consolidated Gas Company, distributes gas in the Boston area. A 37% interest is held in the Algonquin Gas Transmission Company which, by its connection with Texas Eastern, delivers natural gas to New England. While Eastern did suffer a sharp drop in net income last year, its \$1.60 dividend rate, yielding a current generous 5.3% was still safely covered, and a modest improvement in earnings would provide an exceptionally low price/earnings ratio in the current market.

As **Aerojet General**, an 87% owned subsidiary of General Tire, has been one of the most spectacular performers in the recent market, its status as the

Companies With Large External Investments

Company	Number of Shares Held	Investments In Other Companies	Percent of Ownership	Market Value 5/4/59	Income From Holdings 1958 —Thousands—
Allied Chemical Corp. (9,929,119 shs. outstdg.)	409,262 55,225 416,618 100,000 43,502	American Viscose Libbey-Owens-Ford Owens-Illinois Glass U. S. Steel Vir.-Car. Chem. Pfd.	8 1 6 * 9	\$ 20,463 6,460 36,662 9,200 4,350	\$ 614 199 1,042 300 261
		Total per share of Allied Chemical		\$ 7.70	\$0.24
Canadian Pacific Ry. (14,211,783 shs. outstdg.)	8,412,500	Consolidated Mining & Smelt.	51	\$176,662	\$8,412
		Total per share of Canadian Pacific		\$ 12.43	\$.59
Eastern Gas & Fuel (2,795,752 shs. outstdg.)	1,807,905	Virginian Railway	58	\$ 86,779	\$3,616
		Total per share of East. G. & F.		\$ 31.04	\$1.29
General Tire & Rubber (4,872,347 shs. outstdg.)	3,771,672 203,690 17,500	Aerojet-General Corp. (A. M.) Byers Co. (A. M.) Byers Co. Pfd.	87 78 53	\$335,679 8,351 1,925	— 101 30
		Total per share of General Tire & Rubber		\$ 71.00	\$.03
Hammermill Paper (1,071,655 shs. outstdg.)	356,183	Rayonier, Inc.	6	\$ 8,904	\$ 178
		Total per share of Hammermill Paper		\$ 8.31	\$.16
Hanna (M. A.) (3,090,590)	278,000 184,900 382,100 2,001,390 80,000 2,298,269 187,500 489,331	Algoma Steel Hanna Mining Industrial Rayon National Steel Phelps Dodge Consolidation Coal Texaco Standard Oil (N. J.)	5 46 20 27 * 25 * *	\$ 10,286 27,180 9,170 160,111 4,960 75,843 15,937 25,935	\$.278 296 — 6,004 240 2,758 440 1,101
		Total per share of M. A. Hanna Co.		\$106.60	\$3.59
Hunt Foods & Industries (2,602,607 shs. outstdg.)	308,551 207,442 400,962	Harbor Plywood Mc Call Corp. Wesson Oil & Swordift	30 32 33	\$ 6,479 4,356 13,231	\$ 123 124 561
		Total per share of Hunt Food & Industries		\$ 9.24	\$.31
Libbey-Owens-Ford Gl. (5,229,022 shs. out.)	562,000	Johns-Manville	7	\$ 32,596	\$1,124
		Total per share of Libbey-Owens-Ford Glass		\$ 6.23	\$.21
McIntyre Porcupine Mines (762,595 shs. outstdg.)	400,000 23,630 56,282 200,000 148,570 29,000 138,000 10,000 23,332 400,000	Algoma Steel Aluminium Ltd. American Metal Climax Amerada Petroleum Bell Tel. Co. Canada British American Oil International Nickel Standard Oil (N. J.) Steel Co. of Canada Ventures Ltd.	11 * * 3 1 * 1 * * 11	\$ 14,800 .638 1,520 18,200 6,537 1,160 12,696 .530 1,796 12,000	\$.400 .018 .067 .400 .297 .029 .359 .022 .036 .200
		Total per share of McIntyre Porcupine		\$ 91.64	\$2.40
Owens-Illinois Glass (7,148,287 shs. outstdg.)	228,000 387,896 331,500 1,235,859 37,214	Container Corp. Continental Can Monsanto Chemical Owens-Corning Fiberglass Pennsylvania Glass Sand	2 3 1 19 5	\$ 6,156 17,842 16,243 93,925 2,754	\$.228 .698 .331 .988 .067
		Total per share of Owens-Illinois Glass		\$ 19.15	\$.32
Phelps Dodge (10,142,520 shs. outstdg.)	200,000 712,161 195,000	Amerada Petroleum American Metal Climax New Jersey Zinc	3 5 10	\$ 18,200 19,230 5,265	\$.400 .834 .058
		Total per share of Phelps Dodge		\$ 4.29	\$0.13
Revlon, Inc. (2,585,350 shs. ² outstdg.)	221,539 242,000	Schering Corp. Schick Inc.	6 20	\$ 14,178 2,704	\$.265 .048
		Total per share of Revlon Inc.		\$ 6.53	\$.12
Reynolds Metals (11,188,215 shs. outstdg.)	505,000	Robertshaw-Fulton	31	\$ 23,230	\$.757
		Total per share of Reynolds Metals		\$ 2.07	\$.06
Youngstown Sheet & T. (shs. out.)	93,483 53,274	Interlake Steamship Youngstown Steel Door	19 8	\$ 2,430 1,332	\$.187 ³ .066
		Total per share of Youngstown Sheet & Tube		\$ 1.09	\$.07

*—Less than 1%.
1—Plus 3% stock.

2—Combined Common & Class "B" stock.
3—Plus 2% stock.

largest commercial developer and manufacturer of rocket fuels hardly requires description. Dismissing an earlier incarnation as Crosley Motors, the company was founded in its present form only in 1953, and its subsequent growth has been so rapid as to warrant a 10-for-1 split last year. As each share of General Tire represents three-quarters of a share of Aerojet, this means it is considerably cheaper to purchase Aerojet through General Tire or, to put the same thing another way, all of General Tire's operations *ex* Aerojet can be purchased for only about \$15. Aerojet has, however, been contributing somewhat less than half of General's consolidated net income. Besides an expanding diversification of its own, General also holds a controlling interest in A. M. Byers, a long-established manufacturer of finished steel shapes, and through its wholly owned RKO subsidiary operates a chain of radio-television stations and finances motion picture production.

M. A. Hanna holds such a large portfolio in non-affiliated companies that it must be considered as an investment trust as well as an operating property. These investments currently have an aggregate value equivalent to \$106.60 per Hanna share, comparing with a market price for the latter around 125. Hanna does not present its financial statements in such a way that operating income can be clearly distinguished from dividend income, but it is obvious that the difference between these two figures places a very low valuation upon Hanna's own extensive operations. Besides being one of the largest shippers of coal and iron ore on the Great Lakes, Hanna has a 15% interest in the Iron Ore Co. of Canada (Labrador development) and is also an active miner of lower grade ores in the Lake Superior region.

With its investment portfolio substantially unchanged for a number of years, Han-

na has suffered from the poor performance of Consolidation Coal and Industrial Rayon, but may, nevertheless, expect to benefit from the long-range performance of most of these issues. Hanna Mining has recently had its status changed from that of a majority-owned, consolidated subsidiary to a minority affiliate, and in the course of time its public ownership should also expand. M. A. Hanna is unlisted but actively traded, with over 3,000,000 shares outstanding. Listing will probably follow before long, although the separation of the stock into "A" and "B" categories is an unpopular device in the modern era.

A sharp contrast from Hanna, **Hammermill Paper's** outside interests are limited to 356,000 shs., or 6% ownership, of Rayonier. This merely contributes a little diversification within the same industry, and hardly affects the appraisal of Hammermill on its own merits. As this holding is carried at only \$96,000, Hammermill is undoubtedly locked into it by the capital gains tax. The two companies are also affiliated by their joint ownership of Grays Harbor Pulp Company in the Northwest. Like most paper companies, Hammermill has suffered a considerable relapse since 1956, but managed to push earnings into a narrow gain last year (\$2.06 per share vs. \$2.04 in 1957.) The stock looks reasonably priced in the current market.

Hunt Foods & Industries may be more familiar under the name of its former subsidiary, **Ohio Match Company**; the present organization resulted from a merger in 1956. This company has relatively large investments in three other concerns, Harbor Plywood, McCall Corporation and Wesson Oil & Snowdrift, which represent an aggregate value of \$9.24 per Hunt share, and contributed 31¢ earnings out of a total of \$1.60 a share last year. Harbor Plywood is one of the largest domestic manufacturers of its namesake product. McCall Corporation, of which former Governor Langlie of Washington is chief executive, publishes certain magazines of its own, but is primarily engaged in printing periodicals for other publishers. Wesson Oil, somewhat more closely related to Hunt's own activities, is the country's leading processor of cottonseed oil and also distributes other food products. These holdings obviously provide considerable diversification in a single package, and Hunt appears somewhat attractive in the current market although its policy of substituting stock for cash dividends will not appeal to income recipients.

Libbey-Owens-Ford's 7% interest in Johns-Manville is not sufficient to alter the investment characteristics of the former, but does add an interesting plus value. Johns-Manville has not, however, contributed materially to Libbey-Owens recent excellent performance and forthcoming split, as it is still lagging a trifle below its 1956 high.

McIntyre Porcupine stands in a category by itself, as its operating income last year of \$386,000 (after \$533,000 expenditures for outside exploration) was only a small fraction of its investment income of \$2,194,000. In reality the company is an investment trust in a small number of blue chips, mostly but not exclusively Canadian issues, and offering a pretty fair degree of diversification although still emphasizing the natural resource industries. These stocks can be purchased indirectly through McIntyre at a moderate discount from market value; the is-

sues listed in the accompanying table, which still omits a few minor holdings, represent an aggregate of \$91.64 a McIntyre share, versus current quotations of around 87 for the same issue. While McIntyre's mining properties have been written down to a mere \$606,000, these operations provide a steady backlog of earnings, and an eventual increase in the basic price of gold could mean a long-shot winner. In any case, the purchase of McIntyre offers a convenient and economical method of representation in a diversified slice of Canadian industry.

Several reasons for outside holdings are illustrated by **Owens-Illinois**. The 5% interest in Pennsylvania Glass Sand, although not accompanied by any representation on its board of directors, is probably held to secure some control over silica sources. Monsanto does supply some glass-making chemicals, but may be held primarily as an investment. The moderate commitments in Container and Continental Can give Owens a foot in the enemies' camp. Owens-Corning, finally, represents the process of divestment of operations that was initiated (jointly with Corning Glass) by Owens, but are different enough from the parent companies' major fields so that it was considered wise to spin them off. These holdings in the aggregate amount to \$19.15 per Owens share, about 22% of its current market value, although their contribution to net income last year of 32¢ per share was a much smaller 7%. Whatever the reason for these holdings, they have contributed materially to Owen's own favorably performance. Owens-Corning, to be sure, fell sharply after its rapid 1956 run-up, but can be held for long term growth.

Besides expanding its direct operations aggressively, **Revlon** has extended diversification by making substantial commitments in two other companies, Schering and Schick, in somewhat related industries. While only time can tell, this could be an example of the process of absorbing outside companies gradually, until they become controlled subsidiaries. This process will be difficult, however, in the case of Schering at least, which is fully as large as Revlon, and it is doubtful whether the Schering management would be receptive to a voluntary merger. The holding, nevertheless, gives Revlon an indirect participation in the ethical drug field. These two commitments are worth \$6.53 per Revlon share, although they contributed hardly more than nominal earnings last year.

The preceding remarks illustrate the major reasons for substantial stockholdings by one corporation in others, and also point out some attractive investment opportunities. One word of caution must be appended, however, to this study. While it is frequently possible, through the medium of an intermediate purchase, to obtain an indirect stock interest in good companies at a substantial discount from quoted market prices, it may be misleading to put too much weight upon their market value or earnings contributions. The holding companies are not going to liquidate, and no "killing" can be derived from clever arbitrage. Moreover, earnings of a particularly prosperous affiliate may be diverted to general corporate purposes rather than being passed on as dividends; for example, the profits from Pennsylvania Railroad's very successful investment in Norfolk & (Please turn to page 303)



Outlook for the... **International OILS Emerging from Cairo Congress**

By John H. Lind

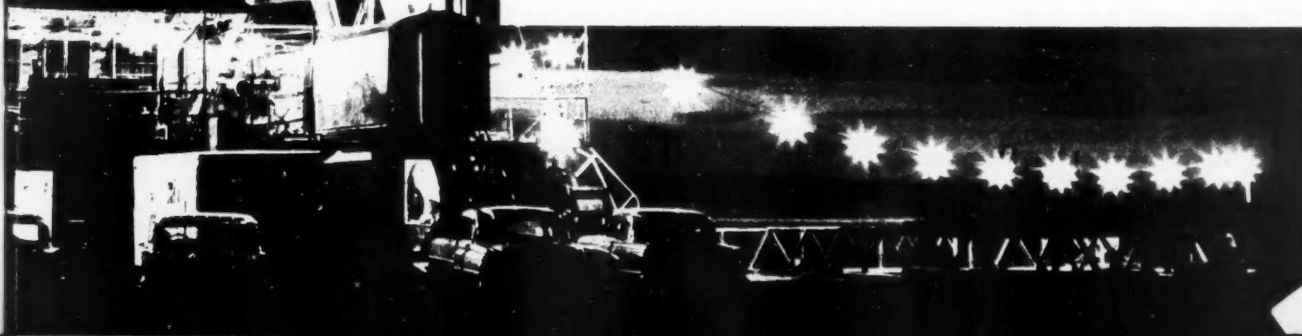
NOTE TO READERS: This important feature, by an authority on the world oil situation, is of most practical value and timely importance — for it supplies a backdrop for the discussions that will be held at the World Petroleum Congress which convenes in New York on June 1st.

Sophisticated and highly practical, it deals with the personalities and politics shaping trends in the Middle East — the situation facing the oil giants in Iraq — Russian and Red Chinese maneuvers vis-a-vis Iraqi oil — and what to expect.

EDITOR

THIS is the season of "togetherness" for the world oil industry. In April, some 500 of its world-travelling members flocked to the Arab Petroleum Congress in Cairo. In May, the great international oil exhibition took place in Tulsa, Oklahoma. And in the first week of June several thousand oil experts will gather in New York for the Fifth World Petroleum Congress, the first such event ever to take place in the Western hemisphere.

The most unique of these get-togethers was certainly the



**Production and Net Profit from Eastern Hemisphere
Operations of Seven Major Oil Companies**

1957 SUMMARY

Oil Companies	Production Million Barrels	Net Income \$ Million U.S.
1. Standard Oil Company (New Jersey)	179.9	191.3
2. Standard Oil of California	159.2	146.0
3. Socony Mobil	97.2	103.7
4. Texas	159.0	146.0
5. Gulf	225.7	137.0
6. Royal Dutch/Shell	173.4	196.6
7. British Petroleum	350.8	154.5
Total	1345.2	1075.1

Source: First National City Bank of New York.

Cairo meeting, not only because it had been planned, postponed and re-postponed for nearly three years but even more because the Middle East continues to be one of the world's political hot spots—and oil is the major reason for it.

Considering this, actually very little happened at Cairo, at least on the surface. In fact, Western news correspondents on the spot did not hide their disappointment over the seeming lack of political fireworks at the meetings. There were several good reasons for the absence of open clashes at the Congress. One was Iraq's refusal to send a delegation to Cairo. As the Middle East's least stable and most anti-Western and anti-Nasser oriented country, Iraq would certainly have been a major source of friction. Another reason for the smoothness was the absence of the oil-producing sheikhdom of Bahrain. Since Iran has long-standing territorial claims on Bahrain and therefore does not recognize the sheikhdom's sovereignty, the Congress planners were faced with the alternative of inviting either Iran or Bahrain. They decided in favor of Iran, the much larger oil-producing country of the two, even though Bahrain is an Arab country while Iran is not.

But the sweeping of political problems under the rug has, of course, never solved them. This applies certainly to the Middle East oil situation which is fraught with political and economic problems of all sorts. If most of them were not fully spelled out at Cairo, they were certainly broadly hinted at, both during the meetings and in corridor talks.

Restudy of 50% Agreements

One thing about which the Arabs left no doubt was that they are no longer satisfied with their fifty per cent share of the profits earned by the foreign oil companies operating within their borders. There is, of course, nothing new in this demand. It has been sporadically voiced in almost every Middle East oil country for the past several

years. But at Cairo these requests ceased to be the views of individual newspapers or political leaders. They became a matter of public record, officially supported by all Arab League member countries. True, the Arab countries did not include a specific request for higher profits in the final resolution of the Congress. But at the opening session, the Secretary General of the Congress pointedly called attention to "developments taking place in the rest of the world . . . which require the oil companies to undertake a *restudy* of these agreements and to endeavor to rid from the provisions of these agreements everything which makes the Arabs feel that their rights are being infringed upon, and that they are receiving less than their fair share as well as to rid them of anything that smacks of exploitation." The "developments . . . in the rest of the world," referred to, was a clear reference to Venezuela's new income tax decree which shattered the established 50-50 principle of profit sharing by giving the government at least 60 per cent of the oil company's pre-tax earnings. The same sentiments were expressed in stronger and simpler language by Sheik Abdullah Tariqi, Saudi Arabia's dynamic, Texas-educated director of petroleum affairs.

On the other hand, all Arab countries were very careful to point out that they had no intention of taking any unilateral action against the foreign oil companies, "nor is there any desire to get rid of them," in the words of the chief of the Egyptian delegation. In fact, when the Arabic request in the opening speech to "restudy" the oil agreements in the Middle East was inadvertently translated as "revise", the Arab delegates were at pains to correct this misunderstanding.

**Sensational Interpretation by Saudi Arabia's Legal
Advisor, Mr. Hendryx — American.**

An even clearer demonstration of their unwillingness to antagonize the Western oil companies at

Oil Revenues of Middle Eastern Countries

	Oil Revenues (\$ million U. S.)					
	1953	1954	1955	1956	1957	1958
Bahrain *	—	—	—	—	—	—
Iran	**	**	89.5	152.0	214.0	246.0
Iraq	143.7	191.4	206.5	192.6	136.9	235.0
Kuwait	191.8	220.0	305.0	306.0	365.0	415.0
Qatar	17.8	23.3	35.3	38.1	44.5	57.0
S. Arabia	220.2	233.5	282.2	290.9	296.9	310.7
Total	573.5	668.2	918.5	979.6	1057.3	1263.7

* Included with Saudi Arabia so as not to reveal confidential government data.

** Not significant.

	Oil Production (million barrels)					
	1953	1954	1955	1956	1957	1958
Bahrain	11.0	11.0	11.0	11.0	11.7	14.9
Iran	(10.2)*	(21.2)*	116.8	192.4	255.5	277.4
Iraq	205.8	223.6	238.7	228.7	160.5	261.3
Kuwait	316.0	348.4	400.0	401.4	418.2	511.7
Qatar	29.7	34.9	39.7	42.9	48.3	58.8
S. Arabia	300.6	339.1	343.4	351.9	353.0	367.9
Total	863.1	957.0	1149.6	1228.3	1247.2	1492.0

* Not included in total.

Source: First National City Bank of New York.

The Way Of The East

this stage was seen in their reaction to a paper on the sanctity of oil contracts, delivered by the legal advisor to the Saudi Arabian government. Ironically, the author of this paper, which was by far the most sensational one at the meeting, was an American lawyer, Mr. Frank Hendryx, who had once worked for a major U. S. oil company. *Mr. Hendryx's thesis was that a sovereign government had the right to abrogate its oil contracts whenever it was to its interests to do so. Accordingly, petroleum concessions could be changed "either through legislation or executive decree."*

Furthermore, he added, "this purpose for which a government exists—the service of their people—requires that on proper occasions those governments must be released from or be able to overrule their contract obligations."

While this was promptly headlined in some

Middle Eastern "Proved Oil Reserves"

Territory	As Assessed in		
	1936	1944	1958
In million metric tons			
Egypt	5	10	15
Persia	300	870	4,450
Iraq	330	670	3,300
Bahrain		40	50
Saudi Arabia		670	6,200
Kuwait		1,200	8,100
Qatar		130	320
Turkey			20
Neutral Zone			1,800
Israel			15
Total	635	3,590	24,720

American papers as an "Arab challenge to Aramco" and an "Arab Policy statement", the Congress itself quickly made it clear that nothing could be further from the truth; that the author, in fact, was speaking only for himself. To dispel any lingering doubt, the delegates conspicuously omitted any reference to the paper in the final list of resolutions adopted by the Congress.

That, ignoring Iraq for the moment, it can be said thus, for the time being, the Arab countries will not use force or even the threat of force to achieve their aims of more income from their oil production and a greater say in and control over their oil industry.

Thus, the ever-present specter of nationalization was only dimly visible at Cairo. This was reflected in a revealing remark made by President Nasser at the Congress. The Arab leader stated quite clearly that Egypt's nationalization of the Suez Canal should not be construed as a precedent for what is in store for Middle East concessions. "The two situations are not comparable," Nasser said in an interview with a correspondent from *Petroleum Week*. "In the Suez case, we knew the customers had to come to us because we controlled the facility. In the case of oil, the Arabs know that their oil has to go to the customers before it has any value. Thus, the Arabs need to and want to, cooperate with the West—as long as the terms are fair."

Nevertheless, the Arab delegates did voice certain specific requests which they expect the oil companies to heed. They include more active participation in the Middle East oil industry, integration of the Arab petroleum industry, the creation of national oil companies to operate side by side with the foreign companies, no price changes without prior discussion between the producing companies and the host country, increased refining and petrochemical plants in the Arab countries and an all-Arab pipeline project.

The Arabs will undoubtedly achieve success with some of their requests. Thus, the companies are likely to give them increased participation in managing industry affairs, and to inform them in advance about contemplated price changes. The proposal for national oil companies reflects the thinking of the Venezuelan guest delegation, since Venezuela has such a plan under active consideration.

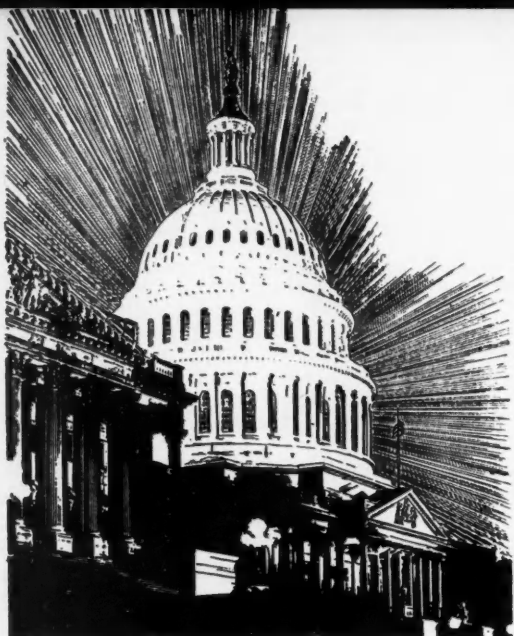
A national oil company exists already in Iran and in Egypt. However, it is difficult to imagine an operation of this kind in Saudi Arabia or Kuwait in the near future, since neither of these countries has the trained personnel, nor even the training facilities, to staff such an enterprise.

What Realism in Saudi Arabia's Goal?

The request for integration of the oil industry is one of the pet projects of Abdullah Tariki. In principle, it seems that the producing countries should share not only in the profits arising from the crude oil output within their borders but also in the profits yielded by the off-shore transportation, refining and marketing operations, involving their crude oil. If the companies were to grant this request it would put very little additional cash into the coffers of the producing countries, for transportation, refining and marketing are very unprofitable operations for most international oil companies. According to one experienced oil operator, total profits from Middle East oil operations amount to about 90 cents per barrel, of which 80 cents represents profit from crude oil production.

Independent studies by the U. N. and by the Economist of London confirm the impression that there is very little profit in the international oil business, outside of the producing sector. Obviously, an experienced oil man, like Sheikh Tariki, must know this. His official answer, somewhat emotionally, is, "I don't care what the profit is on refining and marketing; if it is only two cents a barrel I want one cent of it." *But his real motivation is not a slice of that meager profit but a direct interest in the international oil companies' world-wide marketing outlets.* For Tariki believes that some day Saudi Arabia's oil production will be the country's own, whether it will be one decade from now or around the year 2,000 when the treaty between Aramco and Saudi Arabia comes to an end.

He also knows that with the growing world-wide oil surplus, an oil producer's economic health depends no longer just on the oil in the ground, but equally much on whether he has sufficient sales outlets. This is the real (Please turn to page 304)



Inside Washington

By "VERITAS"

APPLAUSE is due no one for the Clare Luce ambassadorial thing. Both the nominee and her principal antagonist, Senator Wayne Morse, appear to have found personal satisfaction — Morse for placing Mrs. Luce in the position where resignation seemed the only route, and she for the opportunity to dramatize the hazards one faces by accepting the call to public service when Senate confirmation is required. Mrs. Luce's conduct at the public hearings and after she had been approved for the Brazilian post found little

harmony with the popular concept of a diplomat. President Eisenhower attempted to excuse it all on the ground of provocation. It didn't "sell."

WHETHER Clare Boothe Luce or some other individual serves this country in an outpost is of no great magnitude. The doctrine of the indispensable person has been toyed with, but never accepted, by the United States. But it is important that the designee who personifies this country in a foreign capital takes the position under the most favorable auspices. To be torn apart in committee hearings or floor debate destroys more of the United States than it destroys of the target. Still the Senators are constitutionally under compulsion to examine, to reject if good reason exists. Such reason has been found and dealt with in the past.

CONTRASTING sharply with the Luce affair is the situation in which Admiral Lewis Strauss found himself. Nominated for Secretary of Commerce on the basis of an outstandingly successful career in civilian and in military service and as head of the Atomic Energy Commission, Strauss found himself under fire on grounds wholly unrelated to the question before the Senate committee: Is he competent to fill the position for which he has been designated? Competency involves many things — personal integrity, educational background, successful experience in executive capacities. The answer was yes, all around. Some red herrings were drawn across the trail, quickly destroyed. Ultimately the opposition to him came clear: He has always refused to be a Congressional errand boy.

ADHERENCE to deeply rooted principles, political or economic, has become a bar to public office on the Senate-indorsement level. Ambassadorial posts are restricted to the wealthy and, usually, are the payoff for service in the campaign. And if those were insufficient in their unfortunate impact, the element of the political vendetta is taking hold. The most bitterly fought ambassadorial nominations of the Eisenhower Administration concerned Ceylon and Eire. Each cleared the hurdle of Senatorial attack. Each then turned in an outstanding job of representing this country.

WASHINGTON SEES:

The jug-handled approach to inflation control which proposes to place prices in a strait-jacket while doing nothing to level off wages and other production costs is headed for the legislative files, where now repose the voluminous documents of TNEC and other fulminations of Sen. Joseph C. O'Mahoney gathered over a quarter-century.

The White House has placed its first team on the field to point up the impracticalities of the bill which would require 30 days advance notice of intent to raise prices of a commodity in the production of which eight or fewer companies account for at least 50 per cent of the output. In the present state of mass production in the United States such a statute would have the effect of placing the country virtually under price control.

The O'Mahoney Bill would effectively put an end to price reductions in all major lines. To effect inventory clearance or put on a sales campaign featuring lower prices would mean 30-day notice and public hearings to restore normal selling levels. It would stabilize prices — freeze them. The cost of policing would be enormous. It would be impossible says the Department of Justice. To which the Federal Trade Commission adds concurrence. Organized labor is for the bill but with misgivings: wage controls could be next!

As We Go To Press

Real Estate Tax Dodge — Members of Congress, concerned over the need to increase the tax intake and equalize the burden, are taking a hard look at activities in the real estate market. They find tax advantages becoming increasingly important in channeling investment. The deals under examination do not transgress the law. But neither do the practices in other areas which are grouped as tax dodges or loopholes. The concept of real estate investment buying is seen undergoing rapid change with many investors more concerned with tax advantages in buying a property than in yield. The orthodox approach was to seek a fair return on the money. In today's practice a deal will be completed when there is no prospect of yield, provided the purchaser can take depreciation big enough to offset some other income and thus simplify his tax problem.

► One of the many instances which have been cited (it is believed to be typical of a whole range of deals) is

a situation in which a purchaser who paid \$300,000 for the equity in a piece of property, after paying the interest and the amortization, received no return on his investment. But the investor leased the property to a large concern for a long term and was in a position to take \$270,000 in depreciation. Being in the 80 per cent income bracket, he thus was able to deduct \$216,000 from his ordinary income. Decentralization of business in many cities has been an aid to this type of operation. Mercantile and office buildings go on the market as the move to shopping centers, roadside outlets, and suburban locations accelerates.

Auto vs. Plane Production — While the aircraft and parts industry remained the nation's largest manufacturing employer during 1958, with an average of 757,500 workers, employment in the motor vehicles and equipment industry is showing signs of moving to the top. The February figures compiled by the Bureau of Labor Statistics showed the plane industry declined slightly to 756,600 while the auto industry moved slightly upward to 724,100. Automation appears to be playing a role on aircraft payroll reduction. A new technic for machining complex aircraft and missile parts, based on using a high-speed computer to calculate "instructions" placed on tape, offers saving of skilled man hours as high as 80 to 95 per cent. An automatic testing machine used by a missile component manufacturer can run a complete test on a complicated assembly

in one hour, compared with 32 hours required to check the assembly by manual methods.

Competitive Government Buying Pushed — A new drive against negotiated contracts has been started by Senator John Sparkman who charges the Pentagon with wasting money by not taking advantage of competitive bidding practices. Sparkman contends the principle of "what the traffic will bear" controls military procurement today. The supporting evidence is convincing. The Navy's Ship Parts Control Center at Mechanicsburg, Pa., has submitted a list of 42 items purchased for the first time under competitive bids. The products were bought for \$39,209.15. Based on the Navy's experience prior to 1958, a similar number of these products, purchased from non-competitive suppliers, would cost the government \$131,362.25. This indicates a 70 per cent saving passed over.

► The Alabama Senator rejects the suggestion that the Pentagon is forced to use the noncompetitive method because of lack of companies engaged in the production of much of what the military services use. The Mechanicsburg "buys" were chosen, he explained, because they are common-use items. For examples, bearing sleeves, bolt shoulders, gear assemblies, carbon packing, coupling assemblies, reactors, bearings, gaskets, shaft drives, armatures, washers, pistons and the like. In every listed instance the company supplying under competitive bid was a different one that had been given the business without competition.

Dual Job Holding — The trend toward multiple jobholding (holding down two or more jobs at the same time) fell off during the business recession following a marked uptrend during the past decade. This development becomes more interesting in the light of labor union suggestion that a four-day week is necessary to spread existing jobs, the theory being that out of the relinquished fifth day of the week many additional payroll spots can be moulded. An examination of the data shows that two-job holdings are most common among the unionized lines of work. Overall, there were 3.1 million American workers holding two or more jobs during the survey period, July 1958. With the continuing business upswing it may be presumed that the number has increased, possibly recapturing many, or most, of the 500,000 secondary jobs lost since the 1957 count.

Labor's "Due Bill" — Organized labor has presented its "due bill" to House members whom they supported and helped elect in the November election. If the tender is honored, the Kennedy Bill will come out of the next round even less potent than it was when the Senate closed shop on it with almost unanimous approval. Those Senators who favored legislation to end corruption by labor bosses became convinced it was the best they could get; those beholden to the unions realized the bill did little which the unions do not already claim they are doing, or can do. Whatever happens from this point out will be in the direction of less regulation. Senator John Mc Clellan whose two years of exposure of the seamy side of labor-management overreachings largely went down the legislative drain, saw his committee's usefulness spent. Suggesting that it disband, he summed: "If we haven't made a case in the past two years, we never will."

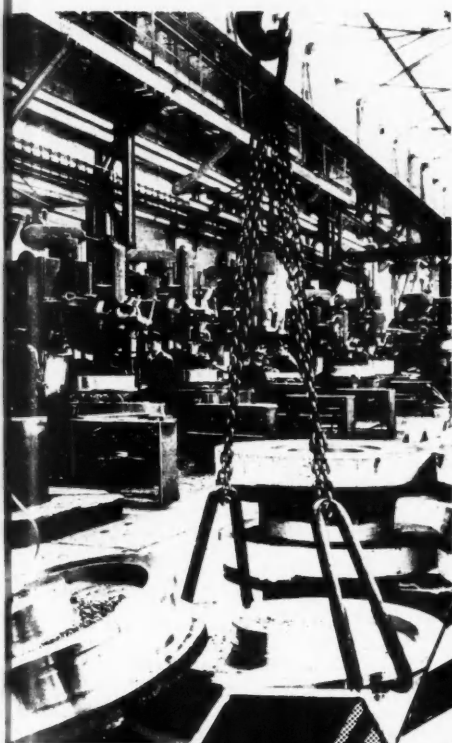
The Mc Clellan bill-of-rights had the makings of a bill saver. It would have extended protections to rank-and-file members of unions and would have brought about some degree of industrial peace. The history of that amendment is most interesting. On the surface it appears to be nothing more than an instance of a close majority reversing itself upon second thought. It had much greater depth. On the first vote, the "liberals" in the Senate lined up against the propositions which

clearly were unfavorable to the unions. But when word spread through the southern bloc that the McClellan draft would have given government a weapon to force unions to admit Negroes to membership, they fell away, switched. The result was this: The "liberals," who have been screaming for racial integration of public schools, now used the same arguments in reverse to bring southerners over to their side.

House More Independent — Over the years the House has shown more independence in making labor legislation than the Senate has. It would be a mistake to read into that fact a promise of a better labor bill. It was the House that first passed the Hartley Bill, which was to become the Taft-Hartley Bill, after the Senate concurred. The House was first to enact the measure over President Truman's veto. When President Truman asked Congress to give him authority to draft rail workers into military service if they struck during World War 2 (as they had threatened to do), the House moved to do so. That proposition was blocked in the Senate in a fight led by Senator Robert A. Taft.

The democrats and the labor bloc, which are virtually synonymous, have been damaged by action taken thus far on labor legislation. Assuming they have pleased organized labor, the political benefit is a somewhat negative one: they didn't lose something they already had — the support of the labor bosses. That statement may be subject to some skeptical examination but in the overall the unions are satisfied. They should be! But Senator Kennedy did not emerge from the fight unscathed. His position is somewhat akin to that of Senator Taft who was the darling of private enterprise and the conservatives — until he asked for their support in the Presidential nominating convention. He didn't get it.

McClellan Committee Folding — Perhaps the greatest loss the demmies must contend with arises out of Senator McClellan's decision that the labor-management investigating committee should fold its tent and silently steal away. The Arkansas solon has been relentless in his pursuit of malefactors. He had given the democratic party an aura of virtue that could have paid off well in the 1960 election sweepstakes. It was helpful in 1958. McClellan has no trouble being elected in Arkansas and has no other political ambition.



DYNAMIC WEST GERMANY

By John Scali

- ▶ Out of the rubble of World War II — West Germany emerges to rank third among important trading nations
- ▶ Financially, it looks as though Frankfurt is becoming second as World Banking Center
- ▶ A free enterprise success story under sound thinking by astute managerial minds and hard working people

WEST Germany's industry is booming ahead, promising to smash even more records this year than it did in 1958 when it hit a postwar peak despite some recession pains.

The story of Germany's amazing economic comeback can be summed up in three important facts:

1. Exports are continuing to mount to the point where West Germany is now the third most important trading nation in the world, trailing only the United States and Britain.

2. A tremendous upsurge in automobile production has made West German factories the second biggest manufacturers of motor vehicles anywhere on the globe.

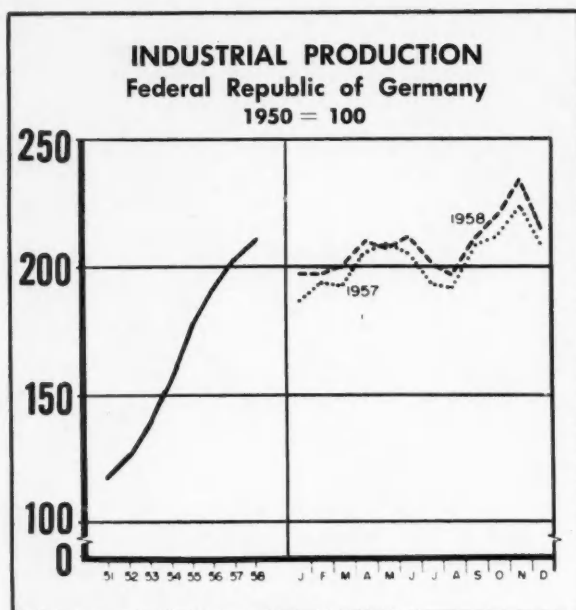
3. Money is so plentiful now in West Germany that the German financiers have moved into fourth

place among the world exporters of private capital.

These records were set in 1958, during a year when nearly every country, including the United States, slowed down its economic pace because of a business recession.

The fall-off in demand hit some of West Germany's industries too, notably the steel, textile and coal industries. But the steady gains recorded by other industries, construction, electrical equipment, chemicals, motor vehicles, capital goods as well as trade and services, offset this lag in free Germany.

The next result was that by the end of the year, statisticians chalked up a gain of 2.8 per cent in West Germany's gross national product, even when adjusted to figure in price increases for the full year. At current price levels, the increase



over 1957 was an even more impressive 6.1 per cent.

Even more important for the future is the fact that many of these gains came during the last few months of 1958, some with dramatic suddenness. And they have carried over at a fast clip into the first four months of this year.

With Gains Ahead

At year's end, most German businessmen and economists cautiously forecast another increase of about three per cent in the gross national product during 1959. But orders are beginning to pour in so fast that many smilingly admit that, perhaps, they were a bit too conservative in their estimate. An increase of about 5 to 6 per cent is possible, they say. Such a gain would nearly equal the figure recorded in 1957, one of German industry's best years.

What makes the outlook even more encouraging is that there is virtually full employment, prices are steady, and that labor unions generally have adopted a restrained attitude in demands for wage increases.

When added to the all-time high in Germany's gold and foreign exchange reserves and the record savings by the thrifty German workers, even the most conservative prognosticators are forced to acknowledge that the outlook is rosy.

Cold War Realism

The only cloud of uncertainty in the picture is the ebb and flow of the cold war, particularly Russia's apparent determination to force the Western allies to ease their hold on free Berlin.

But the West Germans are so confident this crisis will be settled short of shooting that they are not even considering hedging their operations. If anything, a compromise solution will increase opportunities for profitable trade with Communist-run East Germany, they believe. Such inter-zonal trade already is going on, with the quiet approval of

Chancellor Konrad Adenauer's government.

Booming Auto Industry

Leading the way in the German economic march forward is "The Golden Child" of Germany—the automobile industry. Motor vehicle production reached new highs in almost every month during 1958 as demand kept going up.

Last year, four big companies combined to produce 1,500,000 cars, compared with the 1,212,000 they turned out in 1957. Volkswagen alone produced 556,717—a 17.8 per cent increase over 1957. More than 90,000 of these were shipped to the United States with prospects that the number will go considerably higher this year.

Percentage-wise, The Opel A. G. Russelsheim, enjoyed the most spectacular year of all. Its output went up 38 per cent over 1957, to a new high of 315,345 cars. Fifty-three per cent of these were exported as part of its increasingly important operations within the General Motors combine. *One of the little-known facts is that Opel's production burst has placed it second in General Motors production, trailing only its Chevrolet division.*

The two other members of the German automobile "Big Four" also set new production records. Fordwerke A. G. Koln turned out 128,532, exporting 5,390 of these to the U. S. Daimler-Benz AG, Stuttgart, manufactured 156,961, with 7,634 going to the American market.

The importance of the trim, economical German automobile in foreign trade can be found in the statistics kept by the government. *Fully 10 per cent of all exports were automobiles.*

Important as automobile production is to Germany's over-all economic health, another industry—construction—probably will be of greater domestic importance in keeping German factories humming.

Dynamic Construction Next

Construction dropped off during the first six months of 1958. But in the last half a boom of sizeable proportions developed and has spilled over into 1959 with no signs it will ease off for many months.

The upturn in building covers the whole spectrum of construction—private dwellings, buildings, factories, highways and public utilities. A big number of unfurnished projects are now on the books and new building permits are being issued at such a rate that it promises to make the construction industry a major factor in pushing German prosperity to a new peak.

Financial Comeback

Assisting the building boom has been a remarkable change in the German money market, engineered by Economics Minister, Ludwig Erhardt, the man who is given credit for directing Germany's economic comeback.

In two sudden moves, the last of these on January 10, he reduced the discount rate of the Bundesbank, first from 4 to 3 per cent, then to 2½ per cent—the lowest rate since 1875 in Germany.

The objective was to reduce the cost of borrow-

Imports from the United States

Federal Republic of Germany and West Berlin
(Million Dollars)

Commodity Group	Annual		— Jan.-Sept. —	
	1956	1957	1957	1958
Food, Fodder and Stimulants	290.5	310.2	230.0	166.5
Wheat	58.0	60.9	47.8	21.2
Edible Fats and Oils	93.6	118.7	87.1	48.0
Raw Tobacco	39.5	43.8	31.8	34.5
Raw Materials	316.8	549.5	422.5	262.4
Hard Coal	213.8	304.9	228.0	162.6
Cotton	49.4	163.7	127.8	63.8
Semi-Finished Products	174.2	237.0	192.6	110.8
Non-Ferrous Metals	67.3	58.6	50.4	29.2
Industrial Fats and Oils	28.7	27.1	20.2	14.4
Scrap Iron	18.1	47.9	42.4	7.5
Lumber and Wood Pulp	15.1	19.6	15.6	13.1
Chemicals	13.2	16.8	10.9	16.5
Finished Products	162.1	241.5	173.3	209.1
Machinery	50.9	58.7	43.9	50.6
Chemical Products	48.0	71.3	52.9	60.2
Rolling Mill Products	19.6	17.3	11.9	19.7
Motor Vehicles & Aircraft	7.6	44.2	30.5	32.5
Total	945.5	1,340.5	1,022.2	752.0

Exports to the United States

Federal Republic of Germany and West Berlin
(Million Dollars)

Commodity Group	Annual		— Jan.-Sept. —	
	1956	1957	1957	1958
Food, Fodder and Stimulants	17.0	18.7	11.2	12.2
Raw Materials	20.2	19.2	15.4	12.7
Semi-Finished Products	43.1	39.7	28.2	20.9
Non-Ferrous Metals	12.2	8.4	5.8	6.0
Ferro-Alloys	10.6	9.7	6.9	1.7
Finished Products	412.5	514.8	372.1	387.6
Motor Vehicles	72.4	139.3	90.6	126.9
Machinery	64.7	73.9	56.8	56.8
Optical & Precision Instr.	26.9	31.4	22.6	23.2
Clocks and Watches	11.7	11.0	7.8	6.6
Cutlery, Tools and Ironware	31.7	40.8	30.9	24.2
Chemical Products	27.0	32.6	23.6	25.5
Electrical Equipment	22.5	35.7	25.7	20.1
Rolling Mill Products	25.2	27.5	22.7	15.1
Bars and Sheets of NF-Metals....	15.8	18.4	13.7	13.4
Glass, Ceramics and China	22.3	20.4	15.5	15.5
Textiles Products	19.1	18.3	14.0	11.7
Toys and Musical Instruments ...	10.4	10.3	8.0	6.7
Total	494.0	594.0	426.2	436.3

ing. As a result, it was hoped that the export of both short term and long term capital would be encouraged. This has worked to a considerable extent.

A big factor in Erhardt's decision was the tendency of German workers to tuck a good part of their earnings into savings banks. The rate of personal savings averaged 10 per cent of income, a figure far above the international average, until Erhardt acted.

By the end of the year, total savings deposited had soared to about \$8,000,000,000 with wage earners adding an additional \$120,000,000 a month to the sum.

One of the swiftest results of the lowering of the discount rate has been to drive down the interest on bonds from 8 to 5½ per cent. Interest on medium and long term credits also has fallen off.

Capital Investment

Investment in fixed assets again acted as a powerful stimulant to German's economic growth during the year. This covers new machinery, equipment, construction and other areas.

West German private investment in foreign countries showed what the American embassy considered a remarkable increase during 1958 with solid signs that the total will go up even higher during this year. Some \$300,000,000 moved to other nations, particularly the underdeveloped lands during last year while the German government was lending foreign governments the equivalent of about \$500,000,000.

The Weak Spots

Despite the healthy glow of Germany's economy, there are three weak spots which bear watching. One of these—the coal industry—directly affects American suppliers. The other two, the textile and steel industries are important as barometers of Germany's condition. The picture for each looks like this:

COAL—The problem is simple: Demand has fallen off and there is a big surplus at a time when the government was committed to import huge stocks of foreign, particularly, American, coal.

Nearly 27,000,000 metric tons have been stockpiled both at the pit heads and by consumers with storage facilities theoretically exhausted, unemployment of miners has risen and there is increasing pressure on the government to cancel all foreign deliveries regardless of contracts.

As a result, the Adenauer government has reversed the once liberal coal import policy and has gone so far as to order a duty on foreign coal imports from nations outside the European Coal and Steel Community. This has cut imports of American coal by 29 per cent in 1958. A quota of 4,400,000 tons of duty-free coal has been set for the United States.

The outlook for any substantial improvement in coal prospects is not encouraging at present. German shipments to other areas have fallen off. Further, even at home the trend is toward increased use of domestic and imported fuel oil.

To meet the problem, the government has embarked on a program of discounts, subsidies, stockpiling and taxes on competing fuel oil. To get rid of some of the surplus, the government has also authorized the swap of 1,000,000 tons of West German hard coal for East German brown coal briquettes and wheat.

IRON AND STEEL—Production dropped to 75 to 80 per cent of capacity. This might be regarded as a fairly impressive figure in almost any other country including the United States. But to German steel makers, used to operating at nearly 100 per cent capacity, it's a cause for worry.

Output of crude steel during 1958 was 22,800,000 metric tons. Pig iron production dropped more than 9 per cent, to a total of 16,700,000 metric tons.

Despite this, iron and steel consumption increased modestly during the year, mainly because users cut down on their inventories.

Orders piling up during (Please turn to page 306)



AIRCRAFTS

In New Stage of Transition

By James E. Wooldridge

- The problems posed by shifts in government orders—and missiles vs. aircrafts—what if disarmament with Russia should occur?
- Growing obsolescence resulting from rapid shifts in technology—new fuels
- Can diversification help to offset high cost of research—and help profits position?
- Companies coming to the fore—those lagging badly—holding their own—sliding
- Backlogs—new orders—and earnings-dividend outlook for the individual companies

THE dogged persistence of the "Cold War" has been a bonanza for the aircraft industry as a whole, but rapid shifts in technology and the unprecedented rate of equipment obsolescence has led to some highly volatile sales and earnings gyrations for individual companies. Moreover, more of the same appears in prospect for the future.

Of course, overhanging the entire aircraft industry picture is the unlikely, but possible prospect of a real disarmament agreement with the Soviet Union. For the speculator such a development may appear remote, but seasoned investors know that too many eggs should never be placed in a basket that may have a hole in it. Put another way, the fact that the chance of disarmament is slight should be weighed against the certainty that if it should occur many

companies in this industry will have absolutely no visible means of support. The result would obviously be catastrophic in a portfolio consisting solely of aircraft shares.

Without being at all bearish on the industry generally, the above warning has ample precedent in the sharply varying performance records of many of the leading companies during a period when defense expenditures, and outlays for aircraft equipment in particular, have been extraordinarily high. How high can be seen from the table on page 274.

It is apparent that throughout the last decade, outlays for aircraft and missiles have absorbed an ever-increasing portion of the defense dollar. Yet individual companies have enjoyed far from a universal participation in this growth. Last year, for

Statistical Data on Leading Aircraft Companies

	Earnings Per Share				Dividends		Recent Price	Div. Yield	Price Range 1958-1959
	Year 1957	Year 1958	1st Quarter 1958 1959		Per Share 1958	1959*			
Avco Corp.	\$.70	\$1.00	\$.30	\$.14	\$.40	\$.40	13	3.0%	15½- 5½
Beech Aircraft	4.09 ¹	4.03 ¹	1.89 ²	1.98 ²	1.60	1.60	38	4.2	40½-18
Boeing Airplane	5.49	4.01	1.35	.21	1.00 ¹⁰	1.00	40	2.5	58½-34½
Cessna Aircraft	4.58 ¹	5.62 ²	2.45 ²	3.92 ²	1.60 ¹⁰	1.60	79	2.0	83½-21¼
Chance Vought Aircraft	5.65	7.55	2.12	1.27	1.90	2.00	37	5.4	55½-31½
Curtiss-Wright	5.07	3.11	.62	N.A.	2.50	2.50	36	6.8	39½-20½
Douglas Aircraft	8.28	4.41	2.32	d1.10	2.50 ¹⁰	2.00	56	3.5	74½-50½
Fairchild Engine & Airp.	.17	d1.96	d .66	d .69	—	—	9	—	13¼- 7
General Dynamics	4.80	3.71	1.01	.60	2.00	2.00	58	3.4	67½-55
Grumman Airc. Eng.	2.38	1.13	.28	N.A.	1.50	1.50	27	5.5	30½-17½
Lockheed Aircraft	2.76	2.94	.86	.65	1.20	1.20	37	3.2	39½-19½
Martin Co.	3.38	4.01	.58	1.04	1.60	1.60	53	3.0	50½-30
McDonnell Aircraft	6.34 ³	6.33 ³	4.21 ⁴	4.27 ⁴	1.00 ¹⁰	1.00 ¹⁰	44	2.2	49½-22½
North American Aviation	4.23 ¹	3.34 ¹	1.61 ²	1.63 ²	1.60	1.60	46	3.4	52½-25½
Northrop Aircraft	3.62 ⁵	4.29 ⁵	1.82 ¹¹	1.97 ¹¹	1.60	1.60	39	4.1	43½-22½
Piper Aircraft	2.94 ¹	2.36 ¹	1.05 ²	1.35 ²	1.00	1.00	35	2.8	37½-14
Republic Aviation	4.15	3.48	.48	.40	2.00	1.00	22	4.5	29½-16½
Rohr Aircraft	2.76 ⁵	2.85 ⁵	1.20 ¹	.96 ¹¹	.93 ¹⁰	1.00	21	4.7	37½-15
Ryan Aeronautical	3.35 ⁶	4.25 ⁶	.95 ⁷	1.04 ⁷	.40	.40 ¹⁰	72	.5	79 -18½
Solar Aircraft	.55 ⁸	2.22 ⁸	1.84 ⁹	1.55 ⁹	1.00	1.00	22	4.5	24 -15½
Temco Aircraft Corp.	1.50	1.50	.35	.27	.75	.75	15	5.0	20½- 9½
United Aircraft	7.97	6.41	1.75	1.20	3.00	3.00	61	4.9	69½-52½

N.A.—Not available.

*—Based on latest dividend rate.

d—Deficit.

¹—Year ended Sept. 30.

²—6 months ended March 31

³—Year ended June 30.

⁴—9 months ended March 31.

⁵—Year ended July 31.

⁶—Year ended October 31.

⁷—Quarter ended January 31.

⁸—Year ended April 30.

⁹—9 months ended January 31.

¹⁰—Plus stock.

¹¹—6 months ended January 31, 1958 and 1959.

Avco Corp.: Largest volume of this diversified company's business is in defense products. The substantial production of gas turbine aircraft engines and increased shipments of airframes for commercial craft will boost sales this year. **C1**

Beech Aircraft: About three-quarters of backlog consists of defense business. Company is an important producer of single and twin engine planes for civilian, foreign and military uses. Earnings this year are expected to approximate 1958 results. **B2**

Boeing Airplane: Earnings will be adversely affected and decline sharply this year due to continuing charges applicable to the commercial program on jets and by reduced military sales. Missile activities are increasing and Boeing may receive additional orders for commercial jets. **B3**

Cessna Aircraft: A leading private plane manufacturer, also makes military training and liaison models. Does sub-contract work for other aircraft manufacturers and has a stake in electronic communication and navigation equipment. Better earnings are indicated over coming months. **C1**

Chance Vought Aircraft: Earnings this year are expected to decline sharply from the exceptionally high level of 1958 due to cancellation of some jet plane orders and Regulus missile programs. Navy procurement policies will continue to affect operations. **B3**

Curtiss-Wright: Engine output of commercial planes practically over and earnings will be affected by increased spending on research and development of new products and writing these expenditures off. Future progress will depend upon the successful launching of civilian products plus ability to develop engine business. Current dividend cannot be considered secure. **B3**

Douglas Aircraft: Commercial plane production has declined sharply, naval plane deliveries have also dropped and heavy cost of developing the jet airliner indicate a deficit this year and this means dividend uncertainties. After extraordinary development expenses are over and missile and space weapon orders increase, this situation should improve. Patience will be required. **B3**

Fairchild Engine & Airplane: Some missile and engine contract cancellations will depress operations and the company needs to develop new defense orders to replace those lost. Dividend resumption does not appear likely in the near or intermediate term. **C3**

General Dynamics: Planes and missiles through the Convair division contribute the largest volume to sales and earnings. Company is largest submarine builder and is also actively engaged in electronics and atomic energy developments. Management is proceeding with its plan to increase civilian business. Continues to have a large backlog of defense contracts. Earnings this year are expected to be lower than last year's results but should improve next year. **B3**

Grumman Aircraft: Heavy costs incurred in development of new type of plane penalized earnings last year but these charge-offs are expected to taper off and substantial new military plane orders should in time improve this situation. Present dividend rate is expected to be maintained. **C2**

Lockheed Aircraft: Company is expanding in the missile and space science fields and plans to enter other important avenues of revenues such as electronics, avionics and shipbuilding. Revenues should be favorable over coming months.

Martin Co.: Producing Navy seaplanes. Orders for missiles and electronic systems represent over 70% of company's current backlog. Upward trend of earnings should increase next year, with swing-over to more profitable fixed-price basis. **C1**

McDonnell Aircraft: Important supplier of jet fighter planes. Also actively engaged in missile and space projects. Recent selection of company's F4H-1 as Navy's single all-weather fighter plane points to sustained high profits. Also benefitting from rising missile output. **B1**

North American Aviation: While aircraft output may decline further, rocket engine, missile, electronics and control equipment business should increase. Will build the B-70 chemically fueled supersonic bomber. Current merger talks with Foster Wheeler. **B1**

Northrop Corp.: Producing Air Force jet trainer and jet fighter, as well as Snark pilotless bomber. However, 68% of backlog is in missiles, drones, electronics and space projects. Company also does sub-contract work. **C2**

Piper Aircraft: One of three leading private plane producers, representing about 35% of industry volume. Production of Apache and Comanche models has been stepped up. Planning introduction of two new aircraft. **C1**

Republic Aviation: Producer of Air Force fighter planes. Research and development program in missiles and space craft. Due mainly to change in type of military contracts for the F-105 plane, immediate earnings trend is downward. **C3**

Rohr Aircraft: Primarily sub-contract work for aircraft manufacturers, including Boeing and Lockheed. Main product is "power package" for planes. Outlook depends on changing position of major customers, mainly in military planes. **C3**

Ryan Aeronautical: Producer of components for airframes and jet engines. Also makes rocket and ramjet motors, drone missiles and electronic equipment. Plans 2½ for 1 split and dividend increase to 20¢ annually on new stock. **C1**

Solar Aircraft: Producing heat-resistant parts for aircraft engines. Backlog declining due to shift from manned aircraft to missiles. Acquisition of 19% of stock by Fairbanks Morse contested by company. Merger denied. **C2**

Temco Aircraft: Engaged primarily in sub-contract work for major aircraft manufacturers. Military plane production now in trend. However, company is building up parts business for rocket engines and missiles. Also creating new products. **C3**

United Aircraft: Leading manufacturer of aircraft engines, propellers and helicopters. Broadening activities in rocket engine, missile and space weapon fields. Company estimates 1959 sales and earnings below year 1958 due to increased spending for research and development. **B3**

**RATINGS: A—Best grade.
B—Good grade.**

**C—Speculative.
D—Unattractive.**

**1—Improved earnings trend.
2—Sustained earnings trend.**

3—Lower earnings trend.

Expenditures For Missiles And Aircraft

In Millions of Dollars

Fiscal Year June 30	Guided Missiles			Total Missiles	Total Aircraft	Combined Total (Missiles plus Aircraft)	% of Combined Total	
	Air Force	Navy	Army				Missiles	Aircraft
E1960	2,661	566	695	3,922	6,589	10,511	37.3	62.7
E1959	2,356	417	587	3,360	7,117	10,477	32.1	67.9
1958	1,668	345	724	2,737	8,448	11,185	24.5	75.5
1957	1,417	264	414	2,095	7,978	10,073	20.8	79.2
1956	641	195	333	1,168	7,146	8,314	14.0	86.0
1955	305	176	238	718	8,037	8,755	8.2	91.8
1954	176	141	187	504	8,335	8,839	5.7	94.3
1953	81	95	119	295	7,417	7,712	3.8	96.2
1952	66	56	46	169	4,888	5,057	3.3	96.7
1951	16	5	—	21	2,412	2,433	0.9	99.1

E—Estimated.

Source: Dept. of Defense, as of Jan. 19, 1959.

example, while total sales increased by over one billion dollars a raft of companies saw their sales decline, as the following table demonstrates:

Company	1957 sales (Millions \$)	1958 sales (Millions \$)
Bell Aircraft	\$ 202.3	\$ 183.0
Curtis Wright	598.6	388.8
United Aircraft	1,232.9	1,200.4
North American Aviation	1,243.8	904.0
Republic Aviation	269.0	218.6
General Dynamics	1,562.5	1,511.5

On the other hand, good gains were scored by the following companies:

Boeing	1,596.5	1,711.9
Lockheed	868.3	962.7
Martin	423.9	483.6
McDonnell Aircraft	335.3	442.4
Douglas Aircraft	1,091.4	1,209.9

Significantly, both lists contain a substantial number of truly major companies in the industry, indicating that the vicissitudes of the defense program are not confined to small and untried companies.

Missiles and Electronics to the Fore

Special circumstances account for the advance or decline for each company, but with a few notable exceptions it is indicative of the current trend that most of the companies that scored gains last year have well developed advanced projects involving missiles or electronics, the two darlings of the space age. Lockheed, for example, gathered in over 30 percent of its income from the activities of its Missile-Satellite Division; McDonnell's missile activities are just moving into high gear, but significant revenues last year were already forthcoming from airframe and engine units for Bendix's Talos missile; and Martin Co., traditionally an aircraft producer, derived 60 percent of its revenues last year from missiles and electronics.

Of course most of the other companies in the industry are also involved in these fields, but so far the fruits are going to the early leaders. Moreover, there is every indication that the leaders are determined to stay out ahead with radically new "Buck Rogers" devices. High on the list of these new "gadgets" are two fantastic new weapons systems: the Bold Orion, and the Dyna-Soar.

Interestingly enough, Martin Co., despite its de-

emphasis of aircraft business—and possibly in response to its now heavy participation in electronics—is a major factor in both of these new weapons systems. However, contracts are yet to be awarded on both.

The Dyna-Soar is fast approaching the contract date—probably around June 30th of this year. Stockholders in many companies, whether they realize it or not have a heavy stake in this project. The weapon is designed to be a globe-circling manned satellite than can literally keep the entire world under surveillance. Martin heads up one team vying for the contract, boasting such well known companies as Bendix, Bell, Minneapolis-Honeywell and American Machine & Foundry, on its side. The other team, headed by Boeing, is comprised of North American Aviation, Aerojet General, General Electric, Thompson Ramo - Wooldridge and Chance Vought. To the winner of this competition will obviously go years of juicy contracts, since it is not expected that the project can be completed before 1963.

The Bold Orion, with Martin again a principal competitor, is an air-to-surface missile, designed to be our principal defense weapon in the absence of a fool-proof intercontinental ballistic missile. With the Bold Orion, our long range bombers will be able to strike at targets anywhere in the world from hundred of miles away. This "stand off" ability should make our bomber force almost impervious to anti-aircraft attack.

New Horizons

Despite their sensational nature however, the Dyna-Soar and the Bold-Orion are but two of the many new weapons systems that are shaping the future for the aircraft industry. How radical the change has already become can be seen from the fact that the number of missiles projects that each company is engaged in has little or no relation to its former activities in the aircraft field. In fact, **Aerojet General**, participating in 14 missile projects as a major contractor tops the list, followed closely by **Thiokol**, which is involved in 11 projects. **Douglas** comes next with 10, but Boeing is currently a prime contractor in only two, North American in 6 and Martin in 8. A host of other companies, of course are involved in one, two three or four projects.

But the wheel spins quickly in this space age,

Comprehensive Statistics Comparing the Position of Leading Aircraft Companies

Figures are in millions except where otherwise stated.	Bosong Airplane	Curtiss- Wright Corp.	Douglas Aircraft	General Dynamics	Lockheed Aircraft	North American Aviation	United Aircraft
CAPITALIZATION:							
Long Term Debt (Stated Value)	\$ 70.5	—	\$ 87.9	\$ 90.5	\$ 48.3	—	—
Preferred Stock (Stated Value)	—	\$.5 ³	—	—	—	—	—
No. of Common Shares Outstanding (000)	7,320	7,664	3,816	9,909	6,313	8,015	6,372
Capitalization	\$ 183.8	\$ 8.3	\$ 119.7	\$ 100.4	\$ 51.4	\$ 8.0	\$ 35.2
Total Surplus	\$ 88.2	\$ 199.9	\$ 144.55	\$ 264.9	\$ 133.4	\$ 176.4	\$ 211.2
INCOME ACCOUNT: Fiscal Year Ended							
Net Sales	12/31/58 \$1,711.9	12/31/58 \$ 388.8	11/30/58 \$1,209.9	12/31/58 \$1,511.4	12/28/58 \$ 962.6	9/30/58 \$ 904.0	12/31/58 \$1,200.4
Deprec., Depletion, Amort., etc.	\$ 50.4	\$ 7.3	\$ 12.6	\$ 17.9	\$ 12.1	\$ 11.6	\$ 23.3
Income Taxes	\$ 32.2	\$ 19.2	\$ 20.8	\$ 34.8	\$ 19.5	\$ 28.6	\$ 44.6
Interest Charges, etc.	\$ 5.0	—	\$ 7.9	\$ 2.0	\$ 5.1	\$ 2.4	\$ 2.2
Balance for Common	\$ 29.3	\$ 25.0	\$ 16.8	\$ 36.7	\$ 18.5	\$ 26.7	\$ 42.3
Operating Margin	2.0%	10.4%	3.9%	4.7%	4.1%	5.7%	7.2%
Net Profit Margin	1.7%	6.4%	1.4%	2.4%	1.9%	2.8%	3.5%
Percent Earned on Invested Capital	14.5%	12.0%	9.4%	13.3%	13.4%	14.5%	15.2%
Earned Per Common Share*	\$ 4.01	\$ 3.11	\$ 4.41	\$ 3.71	\$ 2.94	\$ 3.34	\$ 6.41
BALANCE SHEET: Fiscal Year Ended							
Cash and Marketable Securities	12/31/58 \$ 46.5	12/31/58 \$ 47.2	11/30/58 \$ 61.3	12/31/58 \$ 53.7	12/28/58 \$ 38.0	9/30/58 \$ 38.0	12/31/58 \$ 44.5
Inventories, Net	\$ 245.2 ¹	\$ 72.8	\$ 277.4 ⁴	\$ 376.8 ⁵	\$ 249.9	\$ 62.2	\$ 186.6
Receivables, Net	\$ 229.3 ²	\$ 62.0 ²	\$ 40.9	\$ 66.0	\$ 114.8	\$ 145.6	\$ 103.5
Current Assets	\$ 523.8	\$ 182.0	\$ 396.0	\$ 500.1	\$ 423.4	\$ 257.6	\$ 384.6
Current Liabilities	\$ 333.1	\$ 55.0	\$ 208.6	\$ 284.3	\$ 318.4	\$ 127.0	\$ 187.0
Working Capital	\$ 190.7	\$ 127.0	\$ 187.4	\$ 215.8	\$ 105.0	\$ 130.6	\$ 147.6
Current Ratio (C. A. to C. L.)	1.6	3.3	1.9	1.7	1.3	2.0	1.8
Fixed Assets, Net	\$ 79.6	\$ 77.5	\$ 71.9	\$ 141.7	\$ 63.8	\$ 52.6	\$ 123.7
Total Assets	\$ 605.3	\$ 262.2	\$ 472.8	\$ 651.1	\$ 508.4	\$ 311.4	\$ 470.0
Cash Assets Per Share	\$ 6.35	\$ 6.16	\$ 16.06	\$ 5.42	\$ 6.17	\$ 4.75	\$ 6.98
Inventories as Percent of Sales	—	—	—	—	26.0%	6.8%	15.5%
Inventories as % of Current Assets	—	—	—	—	59.0%	24.1%	55.7%

¹—Includes accumulated charges on fixed type contracts.

²—Includes accounts and estimated balances received from U. S.

³—Class "A" stock (509,405 shares).

⁴—Including cost fixed fee contracts.

⁵—Includes unreimbursed expenditures.

and today's top dog may be at the bottom of the heap tomorrow.

Just within the last week, in fact, the Air Force announced that liquid hydrogen, the ideal chemical rocket fuel is now in production at three plants in the country. What the ultimate effect will be is conjectural, but it is significant that so far Aerojet and Thiokol have been top dogs because of their pre-eminence in the fuel field. Now, **Air Products**, a relatively small company which is operating two of the three plants is moving into the limelight. In addition, the Linde Air Products division of **Union Carbide** will soon receive contracts for the same fuel.

Solving the enigma of handling liquid hydrogen is a scientific breakthrough of major importance and one of which we can all be proud. But it is already apparent that even this marvelous achievement is but a way station on the road to even more powerful fuels.

For with hydrogen, man reaches the uppermost limit of the rocket thrust that can be achieved with chemicals. The next step must be nuclear, and already substantial progress has been made along these lines. At the moment the enormous heat of a nuclear rocket engine presents a stumbling block that ap-

pears insurmountable. Yet less than two years ago, in an article in this magazine on rocket fuels it was pointed out that scientists viewed the safe handling of hydrogen as a virtual impossibility since it had to be kept below a temperature of 420° below zero at all times. The challenge of the impossible is met head on for in this day and age we recognize no limitations.

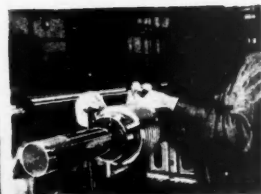
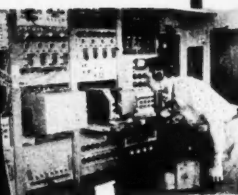
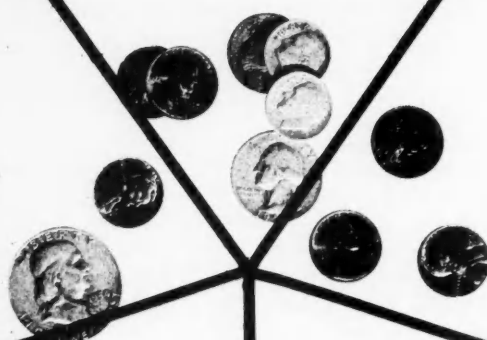
Outlook for Individual Companies

Without belaboring the point, any appraisal of the aircraft companies must remain cognizant of the extraordinary rapidity of these changes. The manned aircraft will be with us for a long time, but its days as a combat vehicle are numbered nevertheless. For transport and reconnaissance purposes, of course, it will remain useful, but barring a radical change in the international picture, missiles will account for an ever increasing share of the defense dollar, while aircraft will diminish in importance. A cautious investor, therefore, will look carefully at a company's background in missiles and electronics before making long range commitments in the industry.

Of course, the com- (Please turn to page 298)



Bill



PART TWO

A Sound Approach To... FIRST QUARTER REPORTS

By Ward Gates

THE tremendous surge in corporate profits in the first quarter of 1959 is the most important economic news in many years, since it offers proof-positive that the American economy is even more dynamic than its most ardent admirers had supposed.

It may well be, however, that the long-range political impact of these earnings will play an even greater role in our collective lives. For the huge sums generated (some estimates run as high as a pre-tax annual profit rate of \$50 billion—an all-time record) will pour untold billions into the public coffers at a time when taxpayers are becoming ever more aware of the spendthrift and boondoggling habits of our politicians.

Just a few months ago, with the economy wallowing in recession, John Q. Public viewed the prospect of federal deficits with equanimity, allowing that it was the unfortunate but inevitable consequence of a governmental system charged by law with the responsibility for maintaining high level employ-

ment, or keeping up the income of its citizens through unemployment insurance and other welfare measures. Today, however, after corporate enterprise in its first quarter performance has written a resounding *finis* to the recession, there are growing indications that the public is casting a wary eye at legislators and government agencies that threaten to fritter away the fruits of the recovery in waste, log-rolling vote getting and other wasteful projects at the expense of the taxpayer, instead of finding ways and means for cutting taxes.

One of the main reasons for this new awareness—and growing resentment—is the sharply contrasting portraits businessmen and politicians have presented to the public in the opening months of 1959. Corporate managers, struggling with the vicissitudes of a rapidly changing economy, became a nose-to-the grindstone class during the low point of the recession. And by dint of intelligence, hard work and elaborately devised cost-cutting schemes, emerged victorious with an almost record smashing

Quarterly Comparison of Sales and Earnings

	1959				1958					
	1st Quarter Net Sales (mil.)	Net Per Share	4th Quarter Net Sales (mil.)	Net Per Share	3rd Quarter Net Sales (mil.)	Net Per Share	2nd Quarter Net Sales (mil.)	Net Per Share	1st Quarter Net Sales (mil.)	Net Per Share
American Can	\$227.0	\$.45	\$241.5	\$.54	\$325.9	\$1.17	\$249.4	\$.67	\$220.1	\$.41
American Machine & Metals ..	14.7	.50	11.8	1.57	9.8	.95	10.9	1.21	12.4	.45
American Viscose	62.5	.71	18.3	.80	58.2	.48	47.0	d .05	49.3	.13
Armco Steel	259.2	1.43	251.1	1.60	210.3	.87	215.5	.79	192.4	.63
Armstrong Cork	66.8	.83	67.3	.77	63.6	.70	60.9	.61	57.9	.50
Atlas Powder	15.9	.91	17.0	.95	16.8	1.20	16.6	.95	15.1	.71
Bethlehem Steel	615.9	1.06	529.9	1.24	472.3	.55	506.0	.61	497.5	.52
Borden Co.	220.6	.94	234.0	1.32	231.3	1.43	230.6	1.45	218.9	.87
Borg-Warner	149.7	.87	137.0	1.39	129.2	.38	135.9	.51	130.8	.56
Brunswick-Balke-Collender Co.	27.1	.57	44.4	1.63	78.2	3.21	37.3	1.14	27.8	.37
Chrysler Corp.	690.5	1.75	697.2	1.30	411.0	d2.29	537.2	d1.16	537.2	d1.74
Clark Equipment	44.3	1.01	39.9	.88	38.0	.71	36.3	.69	28.2	.42
Continental Can	236.9	.49	253.2	.60	328.4	1.47	257.9	.84	240.8	.60
Eastman Kodak	189.8 ¹	.50 ¹	229.6 ²	1.83 ²	197.3 ¹	1.37 ¹	189.1 ¹	1.17 ¹	164.4 ¹	.38 ¹
Ford Motor	1,475.3	2.46	1,938.3	2.05	695.6	d .39	1,095.8	.42	1,095.8	.55
General Amer. Transport.	N.A.	.74	48.2	.79	49.9	.76	52.8	.78	55.1	.73
General Motors	3,206.1	1.03	2,777.7	.82	1,622.9	.22	2,309.8	.52	2,721.3	.65
Goodrich (B.F.)	195.8	1.15	188.8	1.34	174.4	1.01	172.0	.89	161.9	.70
Gulf Oil	N.A.	2.06	1,467.1 ³	3.86	—	2.73	1,302.2 ³	1.77	—	1.87
Inland Steel	2,11.9	1.02	178.2	.91	167.5	.70	159.9	.70	150.2	.46
Jones & Langhlin	236.3	1.97	191.4	1.34	161.8	.81	156.2	.47	144.5	.17
Kaiser Aluminum & Chemical	91.7	.17	102.3	.37	107.8	.40	98.5	.29	99.8	.37
Koppers Co.	51.9	.38	61.7	1.21	66.8	.61	66.8	.80	63.7	.35
Liggett & Myers	130.1	1.71	144.1	2.11	145.6	2.14	142.2	1.91	124.0	1.44
Lily-Tulip Cup	20.5	.85	17.6	.78	22.5	1.10	23.1	1.14	18.6	.73
Link-Belt Co.	36.9	.80	35.3	1.19	34.3	.87	36.2	.74	35.8	.71
Lone Star Cement	20.4	.38	26.1	.63	29.9	.64	25.9	.53	17.7	.26
Merck & Co.	56.0	.73	52.8	.50	52.4	.68	51.3	.72	50.2	.63
National Biscuit	101.4	.74	105.9	1.03	102.3	.70	103.4	.74	101.7	.71
National Steel	197.6	2.20	158.6	1.94	150.0	1.47	117.8	.88	113.4	.51
Olin Mathieson Chemical	159.9	.48	163.0	d .19	162.7	.15	148.0	.41	127.6	.33
Pennsalt Chemicals	20.9	.95	19.2	.65	20.8	.81	20.0	.82	18.5	.58
Phillips Petroleum	299.8	.75	289.8	.62	264.2	.62	250.7	.46	261.7	.60
Pittsburgh Plate Glass	110.2	.38	113.0	.73	151.0	1.22	132.2	.78	117.3	.51
Reichhold Chemicals	22.3	.23	19.6	.21	19.9	.40	18.7	.30	15.8	.15
Republic Steel	321.4	1.71	271.7	1.46	221.3	.97	226.6	.98	190.6	.55
St. Regis Paper	95.2	.64	115.6	.90	88.7	.59	90.7	.51	84.9	.42
Schering Corp.	19.8	.65	16.8	.78	20.4	.84	17.7	.59	20.4	.85
Sinclair Oil	337.2	1.12	316.2	.92	281.6	.69	268.4	.55	325.9	.99
Skelly Oil	68.3	1.16	68.1	1.77	63.2	1.22	58.8	.79	63.5	1.04
Standard Oil of N. J.	2,018.0	.78	1,815.5	.39	2,008.0	.83	1,890.0	.61	1,890.0	.72
Sutherland Paper	15.9	.42	15.7	.45	16.0	.50	15.4	.54	14.8	.54
Thompson Ramo Wooldridge	91.2	.72	136.0	1.05	63.0	.51	67.6	.62	86.8	.65
Union Oil of California	100.4	.60	102.4	.53	107.6	1.19	104.0	.69	96.9	.73
U. S. Rubber	249.0	1.55	263.5	.66	204.0	.74	206.8	.61	196.2	.45
U. S. Steel	1,077.5	1.86	937.0	1.57	872.1	1.28	863.0	1.25	800.0	1.04
Warner-Lambert Pharm.	43.4	1.27	37.4	1.63	51.5	1.89	38.9	.85	41.1	1.25
Westinghouse Elec.	440.0	.81	511.2	1.46	460.5	1.09	474.6	.97	449.3	.73
Yale & Towne Mfg.	29.1	.23	30.0	.36	27.1	.34	28.7	.30	29.8	.32
Youngstown Sheet & Tube ...	184.4	3.33	145.2	2.91	118.0	1.06	122.6	1.23	115.3	1.04
Zenith Radio	59.2	3.37	66.9	5.66	53.6	3.60	32.3	.97	42.1	2.07

d—Deficit.

N.A.—Not available.

¹—12 weeks.

²—16 weeks.

³—6 months.

performance in the first three months of the year.

During the same period, however, taxpayers were exposed to numerous examples of payroll packing by several congressmen; the ridiculous farce of an Air Force Academy complete with plush officer's and non-com clubs, swimming pools, golf courses, etc., etc, but devoid of an airfield for instructing our future air generals in the rudiments of flight; and other equally appalling examples of waste, negligence and complete mishandling of public funds.

One noted financial authority has estimated charitably that waste alone consumes 20 percent of the taxpayers money. It is probably higher. One thing is certain however: the extraordinary efforts of businessmen to right the economy, and in the process to bolster the dollar will go for naught if governmental agencies persist in treating tax revenues as a treasure chest for feathering the nests of special interests.

On the following pages, as in Part I of this report which appeared in the previous issue of *The Magazine Of Wall Street*, we will demonstrate dramatically the job American corporations have done in swinging the country from recession to prosperity in six short months. Would that six months from now we can dedicate a similar piece to our politicians.

Our Steel Spine

As in part I, it is imperative that readers remain aware that earnings comparisons in the first three months of the year are being made with a severely depressed first quarter of 1958. Nevertheless, it is also true that this year's opening period represents the third in a succession of improving quarters, indicating that today's profits are not flukes, but the genuine culmination of a real recovery movement. Furthermore, all indications point to an equally impressive second quarter.

After that, the key to the business outlook will rest largely with the steel industry. From its recent performance, however, our future could not be in better hands. **U.S. Steel**, for example reported a 70 percent increase in earnings over a year ago, and the highest sales figures for at least five quarters. Per share net equalled \$1.86 against only \$1.04 in last year's opening period, but fell short of the \$2.03 reported in the same period of 1957. Even here, however, the comparison is not completely fair, for it fails to note that Big Steel's operations continued to accelerate all through this year's first quarter. Operations averaged 82 percent of enlarged capacity, but the quarter began slowly. By its end, the company was operating at 96 percent of capacity, and from all indications will continue at or above that level through most of the second quarter.

Of course, the big question in Steel's operations is the impending wage negotiation battle, for whatever its outcome, the entire economy is bound to be affected. Specifically, there is no way of knowing for certain, at this juncture, how much of today's frantic steel buying is hedge buying and how much represents solid orders for meeting current needs. It is encouraging, though, to note that several auto makers and at least one railway equipment maker (**American Brake Shoe**) have already stated that

current demand is so strong that they have not been able to accumulate steel inventories, despite their efforts.

It appears, therefore, that barring a disastrously prolonged strike, the dip in steel output will be modest in the latter months of the year. In fact, with demand still strong, the consumption of inventories during the strike may lead to higher than expected operating rates after the strike.

If, on the other hand, there is no strike, output may recede somewhat, but **U.S. Steel**, and the others in the industry will not be subjected to the severe punishment of several weeks or months with no earnings whatsoever.

Machinery Makers Score

With a few exceptions, the nation's machinery and heavy equipment makers scored impressive gains in the first quarter. **Clark Equipment**, a leading manufacturer of fork lift trucks and other automatic equipment, punctuated its quarter-by-quarter recovery pattern with a resounding \$44 million in sales and earnings of \$1.01 per share. A year ago sales were \$28 million and earnings were only 42¢ per share.

It is significant that Clark has been able to recover so strongly despite the fact that new plant and equipment spending is still well below record levels. The company should reap exceptional benefits, therefore, if capital spending picks up more than expected in the second half of the year.

Among the other heavy equipment makers, farm machinery producers continue to enjoy the good demand so evident during the latter half of last year. **Deere & Co.**, in fact, which just completed its second fiscal quarter reported sales for the six months ended April 30, 30 percent above the same period a year ago. Per share earnings of \$2.25 were also well ahead.

In the last week or two however, one ominous cloud has come into the farm equipment picture that will bear close watching. **International Harvester** announced that it was shipping enough equipment into this country from foreign plants, making unnecessary the reopening of some of its recession-shut plants in this country. Competitive factors will obviously soon induce Deere and others to follow the lead. However, what is most disturbing here is that our domestic companies usually export about 25 percent of their output. If this demand can now be met from abroad it will make a serious dent in our export program.

This latter development takes on serious proportions in view of the recent acceleration in our gold outflow. Once again, while businessmen have bolstered the dollar with good business, political decisions and the failure of government to meet the wage-price spiral head on, have led to a cost disadvantage and a situation which poses a further threat to the dollar.

Outstanding Performers

In addition to the generally fine showing in the first quarter, several companies stand out for exceptional achievement. Moreover, not a few are companies that have been discussed frequently on these

pages. **Zenith**, for instance, continued to match its high-flying stock with equally impressive earnings. A year ago, the company was one of the few to show good results, with sales of \$42 million and per share earnings of \$2.07. However, the company's management could well have echoed Al Jolson's famous "you ain't seen nothin' yet." For this year, sales climbed to \$59 million in the first three months and earnings soared to \$3.37 per share. Of course, these figures are down from the normally very strong fourth quarter, but they are head and shoulders above all previous first quarters.

It was interesting to note that the runaway market in Zenith was stamped for what it was when the management in an annual statement disclaimed responsibility for the enormous rise due more to the small floating supply of the stock than the excellent record and outlook for the company.

Goodrich (B.F.), and **U.S. Rubber** also distinguished themselves in the first quarter. Goodrich's operations were cut sharply a year ago and sales slipped to \$162 million and earnings to 70¢ per share. Things got progressively better thereafter, however, and per share net in the first three months of this year climbed to \$1.15. Better sales to auto companies helped, but cost cutting contributed importantly in the improved showing.

U. S. Rubber, which was the subject of a detailed study in a recent issue of this magazine (March 28, 1959) lived up to advanced billing. Sales rose over \$50 million in the first quarter and net income ballooned over 300 per cent to \$1.55 per share from 45¢ in the same period a year ago. Of particular significance for U. S. Rubber shareholders is the fact that so far operations do not reflect the company's new synthetic "natural" rubber announced several months ago. Thus, further improvement appears probable through the balance of the year.

Another of the outstanding performers was **American Viscose**, a leading producer of synthetic fibers. In the doldrums along with the rest of the textile industry for almost three years, Viscose scored impressively from several sectors in the opening period of the year. From its own operations, the company earned 71¢ per share compared with only 13¢ a year ago. However, at the same time its 50 percent owned subsidiary, Chemstrand, also enjoyed a record period, scoring earnings equivalent to another 75¢ for each share of Viscose. Since the groundwork has been laid for the payment of dividends to Chemstrand's parents (one was paid at year-end as predicted in this magazine), the subsidiary's earnings are a real factor in Viscose's future. With the outlook for all segments of its business looking up, a return to 50¢ quarterly payments appears in the offing before too many months have passed.

Costs Still Under Control

Management's excellence stands out in most reports, but it is nowhere more evident than in those cases where sales failed to match last year's first quarter but earnings advanced nevertheless. At **Westinghouse**, the long expected decline in utility equipment billings dropped first quarter sales 2 percent below the comparable period of last year. However, a combination of rigid cost control and

drastic internal reorganization increased profit margins enough to raise earnings from 73¢ to 81¢ per share.

Of particular importance for Westinghouse in the first quarter was the strength exhibited in lines that have been a drag on earnings in recent years. Appliance sales have soared, and bookings have climbed sharply for residential heating and air-conditioning equipment and electrical equipment for industry. If these products hold up as utility business expands the company's earnings could soar later in the year and in early 1960.

In a similar vein, **Atlas Powder**, by varying its product mix and controlling its costs translated a minor sales increase from \$15.1 million to \$15.9 million into a 28 percent earnings advance from 71¢ per share a year ago to 91¢ in the quarter just ended.

Steady Earners

Last year, major food and other producers of goods close to the consumer stood out as outstanding performers. By contrast, their record in this year's first quarter is unsensational, yet it is impressive in its steadiness. Of course, it is this same steadiness which put the stocks in good demand a year ago, but has relegated them to a back seat in recent market activity.

Lily-Tulip, as most others in the group, continued to make progress. Sales advanced to \$20.5 million from \$18.6 million a year ago and earnings rose to 85¢ per share from 73¢. Of special significance is the fact that the start up expenses of the company's new California plant have now been completely absorbed, paving the way for further improvement. Moreover, the company's new plastics division appears to be a real source of new earnings power since sales from this operation jumped 130 percent in the period.

Borden's also continued its slow but deliberate improvement. Sales rose slightly to \$220.6 million in the first quarter and earnings rose to 94¢ per share from 87¢. **National Biscuit**, on the other hand suffered a very small decline in sales, but was able to report higher per share earnings. The small rise to 74¢ from 71¢ means little, except that it does represent an improvement in profit margins, a factor which could take on added significance as the year progresses.

Resurgent Companies

For stockholders in several important companies there is evidence of real recovery after particularly trying times. **Armstrong Cork**, a major producer of building materials missed the boat for several years because of poor product mix and inadequate capacity. Now the situation has been remedied, and fortunately for the company, home building remains strong.

Sales, in this year's opening period, advanced strongly to almost \$67 million from \$58 million a year ago and earnings climbed over 60 percent to 83¢ per share from 50¢. If new homebuilding remains above an annual rate of 1,000,000 units, Armstrong, now geared to more profitable operations, should fare well. (Please turn to page 308)



AIRLINES' DESTINATION: PROFITS

— But Is the Runway
Cleared for Takeoff?

By JONATHAN DODGE

- ▶ How to meet the challenge of the jet age
- ▶ Financing and cost problems
- ▶ Earnings-dividend outlook for the individual companies

in 1958, partly due to the economic recession, the industry's usual traffic growth rate of 13% to 18% annually was completely disrupted. Despite two rate increases, year to year earnings comparisons were miserable.

In order to boost reported earnings, many of the airlines changed their accounting procedures and following a CAB order, depreciation charges were slowed down. Now, a \$2.5 million plane is depreciated over seven rather than five years and some \$150,000 a year is added to earnings. Today, both the traveller and the aircraft he is riding in, are on a "fly now, pay later" basis. While undoubtedly a real increase in earnings will be forthcoming as traffic volume picks up, interest charges on the substantial debt incurred to finance purchase of the new equipment will be heavy; and the common stockholder must face the fact that earnings will be diluted as a result of the sale of equity securities.

If You've Got To Get There, Take The Train

1958 was a year of disastrous work stoppages, from the point of view of both the companies and the travelling public. Last year more man hours were lost in the industry due to strikes than in the previous twenty years combined. Over 2.5 million passengers suffered chaotic rupture of travel plans,

IN MORE ways than one, the Airlines came of age in 1958. Last year was the 21st year of airline operations under the CAA, and it was a year which saw the inauguration of jet flight on a commercial basis. Coming of age has its problems, though, and last year sharply pointed up the challenges which the industry must meet in the coming era.

Fly Now, Pay Later

One of the biggest headaches facing the Airlines was, and to some extent still is, the tremendous cost of the new jet and turbo-jet equipment. Orders have been placed with manufacturers for the purchase of over \$2 billion worth of new planes in the next five years, but the carriers' equity base has been woefully narrow, amounting to only around \$6.5 million. To expand this base, new financing has become necessary; which in turn brings up further problems. The ready availability of fresh capital requires demonstration of a solid earnings base—and

Statistical Data on Leading Airline Companies

	Earnings Per Share				Dividends Per Share		Recent Price	Div. Yield	Price Range 1958-1959
	Year 1957	Year 1958	—1st Quarter— 1958	1959	1958	Indicated 1959*			
American Airlines	\$1.31	\$1.94	\$.12	^d \$2.26	\$1.00	\$1.00	31	3.2%	33½-14½
Braniff Airways59	1.01	.14	.32 ⁶	.60	.60	16	3.7	17½- 6½
Capital Airlines	^d 3.53	.23	^d 1.61	^d 1.03	—	—	20	—	23½-10½
Delta Air Lines	2.34 ¹	.95 ¹	.30 ²	2.89 ²	.30	1.20	33	3.6	36½-16½
Eastern Air Lines	3.21	2.34	.74	.69	1.00 ³	1.00	41	2.4	46½-29½
National Airlines	2.73 ¹	^d .54 ¹	^d .54 ²	1.42 ²	4	5	24	—	29½-12½
Northwest Airlines	3.56	4.06	^d .60	^d .04	.80	.80	40	2.0	46½-10½
Pan American World Airways	1.35	.80 ⁶	^d .55	.82	.80	.80	31	2.5	35½-12½
Trans World Airlines	^d .23	^d .26	^d 1.56	^d .57	—	—	21	—	23¼-10½
United Air Lines	2.28	3.88	^d .11	.50	.50 ³	.50 ³	38	1.3	40½-21½
Western Air Lines	2.83	1.51	.15	1.02	.80 ³	.80 ⁶	33	2.4	38 -19¼

*—Based on latest dividend rate.
d—Deficit.

1—Year ended June 30.

2—9 months ended March 31.

3—Plus stock.

4—Paid 12½% stock.

5—Paid 5% stock thus far in 1959.

6—Estimated.

American Airlines: largest domestic carrier. Flies over 14,000 route miles. Stock appears rather fully valued, but remains attractive for longer pull. B1

Braniff Airways: 8th largest domestic line, flies some 16,000 route miles including international. Good growth potential but stock not cheap. C1

Capital Airlines: 5th largest U.S. Carrier, flying 5,500 route miles. Assuming financial troubles can be ironed out, stock has speculative appeal. C1

Delta Air Lines: 6th largest domestic line, flying 13,000 route miles. Despite recent runup, stock still has some possibilities. C1

Eastern Air Lines: 5th largest domestic line. Serves important North-South route. Very interesting potential. B1

National Airlines: 7th largest domestic carrier. Serves Eastern seaboard.

Stock does not seem overpriced. B1

Northwest Airlines: One of smaller carriers. For combination of reasons, including stock dilution, does not appear attractive at this time except as a speculation. C1

Pan American: large air carrier in world. Stock has runup and appears somewhat overvalued. B1

Trans World Airlines: 4th largest domestic carrier. Has had a runup. Stock continues to be speculative. C1

United Air Lines: 2nd largest carrier in U.S. Despite modest dividend, stock appears attractive at this time for longer term. B1

Western Airlines: 10th largest domestic line. Stock seems reasonably priced though perhaps not overly dynamic. C1

RATINGS: A—Best grade.

B—Good grade.

C—Speculative.

D—Unattractive.

1—Improved earnings trend.

2—Sustained earnings trend.

3—Lower earnings trend.

and in many cases were forced to secure other means of transportation. It should be remembered that labor costs are extremely high for the airlines; 40¢ out of the revenue dollar for personnel constitutes the airlines' largest single expense.

Last year also emphasized further the increasing need for improved traffic control in the nation's airways which are coming to resemble outdated highways. Flight operations are putting a larger and larger burden on control towers; some 26.6 million operations were reported last year against 19.5 million as recently as 1955. Regrettably, safety in the air is not yet assured despite the gains and efforts that have been made. In 1939 the fatality rate per 100 million miles for the domestic carriers was 1.2; in 1958 it was 0.45; but last year 113 persons died in airline accidents and there is unfortunately no record of the number of persons who came near to being scared to death in an incredible number of near misses. In 1957 the domestic fatality rate was 2.6 on the highways versus only 0.12 in the air. (For those who wish proof that the best place to stay is in bed, the fatality rate in that year for the bus riding public was 0.13 and 0.07 on the trains.)

You'd Be There Now If You'd Gone by Plane

But most people are in a hurry to get someplace, and the advantages of the plane in this respect are obvious. Furthermore, airline service is improving. It is interesting to note that from 1949 to 1958 the rail time between Chicago and New York was trimmed not a whit, while over the same period air serv-

ice between the same two points was cut from 2 hours 55 minutes to 2 hours 25 minutes, or 17.1%. And, while rail fares over the route went up 88% in those years, the airline fare was increased by only 9%.

To provide the passenger with steadily improving service costs money, however, both for equipment and personnel required to keep the planes moving. Operating revenues have grown, of course, but so have operating expenses. Total operating revenues for the domestic carriers last year was \$1,513,019,000—and total operating expenses were \$1,418,486,000. Flying expenses accounted for some 31% of the total, maintenance 19%, general services and administration 39%, and depreciation and amortization 11%.

The Outlook

Some indications of what 1959 will bring can be derived from first quarter results which point towards a record year for domestic operations, a new period of prosperity, and restoration of the industry's historic growth pattern. For the first three months, passenger revenue miles climbed to 6.25 billion versus 5.79 billion for the same period last year; the gain for March alone was 14%. This healthy increase in traffic has helped bolster the industry's confidence in its expensive re-equipment program. Contributing to the rise in traffic is the new equipment itself. For example, American Airlines reports a rosy 95% load factor on its trans-continental turbo-jet flights, an indication that new

Comprehensive Statistics Comparing the Position of Leading Airline Companies

Figures are in millions except where otherwise stated.	American Airlines	Eastern Air Lines	Northwest Airlines	Pan Amer. World Airways	Trans World Airlines	United Air Lines
CAPITALIZATION:						
Long Term Debt (Stated Value)	\$ 77.5	\$115.0	\$ 34.2	\$158.9	\$ 67.0	\$111.6
Preferred Stock (Stated Value)	\$ 12.5	—	\$ 11.4	—	—	—
No. of Common Shares Outstanding (000)	8,011	3,025	1,373	6,662	6,674	3,687
Capitalization	\$ 98.0	\$118.7	\$ 59.4	\$165.6	\$100.4	\$148.5
Total Surplus	\$117.1	\$103.4	\$ 23.0	\$127.2	\$ 76.8	\$ 93.7
INCOME ACCOUNT: Fiscal Year Ended						
12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58
Total Operating Revenues	\$317.2	\$246.2	\$101.9	\$313.2	\$284.8	\$319.9
Deprec., Depletion, Amort., etc.	\$ 22.9	\$ 19.7	\$ 8.5	\$ 31.3	\$ 30.0	\$ 28.8
Income Taxes	\$ 12.3	\$ 3.4	\$ 5.6	\$ 3.2	—	\$ 9.1
Interest Charges, etc.	\$ 1.0	\$ 3.7	\$ 1.4	\$ 3.3	\$ 3.7	\$ 4.5
Balance for Common	\$ 15.6	\$ 7.1	\$ 5.6	\$ 5.1	\$ d.1.7	\$ 14.3
Operating Margin	8.3%	4.6%	11.8%	2.3%	—	10.5%
Net Profit Margin	5.0%	2.8%	5.5%	1.6%	—	4.4%
Percent Earned on Invested Capital	11.6%	6.6%	11.6%	3.8%	—	10.9%
Earned Per Common Share	\$ 1.94	\$ 2.34	\$ 4.06	\$.82	\$ d.26	\$ 3.88
BALANCE SHEET: Fiscal Year Ended						
12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58
Cash and Marketable Securities	\$ 65.4	\$ 48.0	\$ 13.4	\$ 32.4	\$ 41.1	\$ 52.6
Inventories, Net	\$ 1.5	\$ 7.2	\$ 2.1	\$ 6.3	\$ 12.5	\$ 2.7
Receivables, Net	\$ 44.4	\$ 9.0	\$ 11.7	\$ 47.7	\$ 23.9	\$ 44.3
Current Assets	\$114.7	\$ 64.3	\$ 27.6	\$ 96.7	\$ 80.1	\$101.0
Current Liabilities	\$ 79.6	\$ 25.7	\$ 17.3	\$ 54.8	\$ 64.6	\$ 73.1
Working Capital	\$ 35.1	\$ 38.6	\$ 10.3	\$ 41.9	\$ 15.5	\$ 27.9
Current Ratio (C. A. to C. L.)	1.4	2.5	1.6	1.7	1.2	1.4
Fixed Assets, Net	\$ 28.5	\$188.7	\$ 65.6	\$159.8	\$161.2	\$229.6
Total Assets	\$316.6	\$258.9	\$105.0	\$361.8	\$254.2	\$332.9
Cash Assets Per Share	\$ 8.16	\$ 15.87	\$ 9.75	\$ 4.87	\$ 6.16	\$ 14.27

d—Deficit.

traffic and new markets will add further to volume.

The domestic airlines are certainly off to a good start, and there seems little doubt that the industry will register a 10% to 15% increase in traffic growth. The airlines will in 1959 operate under the benefit of a full year of higher fares with another increase of about 4% expected next month or the month after, when last year's interim increase expires. Most of the companies will not face labor negotiations this year, to their relief—and in brief the weather looks good. . .

But Is The Runway Cleared For Takeoff?

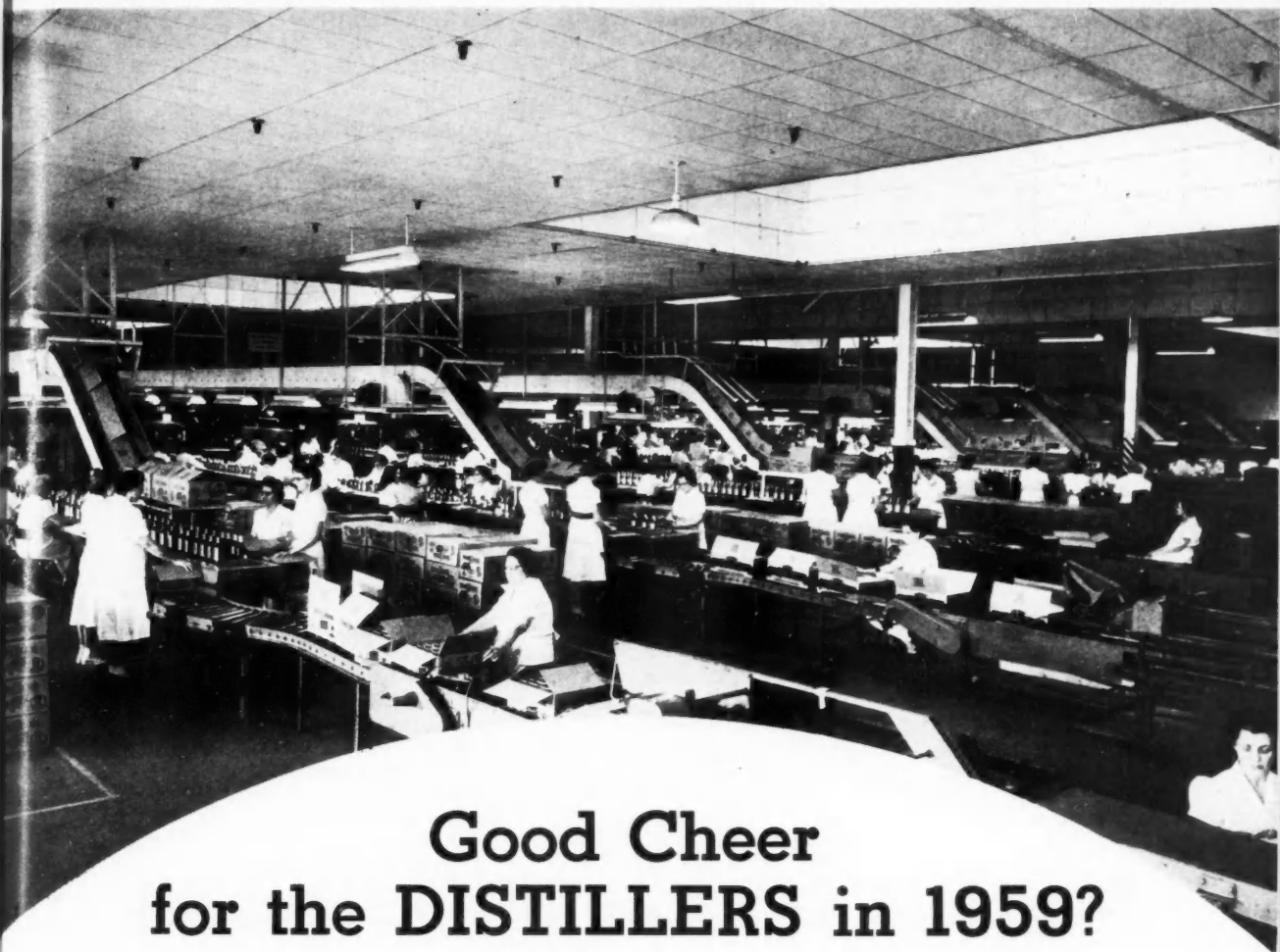
The dawn of the jet age brings a tremendous challenge. From 1946 to 1955 domestic airlines seat capacity increase around 22.5 billion; now, the industry with its new shiny equipment must demonstrate that it can accomplish the same phenomenal increase in 3 instead of ten years. On the basis of equipment already received or soon to be delivered, some 20 billion new seat miles will have to be filled between now and 1962. Can it be done? To this observer it indeed appears that the runway is cleared for takeoff. The airlines are gradually beginning to realize that more passengers (and more revenues) will be forthcoming if greater emphasis is placed on schedule reliability, equipment reliability, and passenger service, not necessarily aloft. The lure

of martinis and meals is not as great as the promise of dependability.

And What About The Stockholder?

Before discussing the individual merits of the various companies, some data on the industry may be of value. Using the earlier mentioned figures on operating income and operating expenses, we find that net operating income for the industry last year amounted to \$94,533,000. After taxes, interest etc., net profit was \$44,709,000, for a 6.6% return on investment and a 3.0% profit margin on sales. The Domestic Airlines' balance sheet in 1958 showed Current Assets of \$456.7 million versus Current Liabilities of \$323.0 million for a Current Ratio of about 1.4 to 1.

First quarter results for **American Airlines** reflected the pilot's strike earlier in the year. For the first three months revenues were down to \$69.5 million, 2% off the 1958 period figure; however it is estimated that had it not been for the strike, revenues for the quarter would have been near \$79 million. Per share deficit of 12¢ included a loss from the sale of piston-type aircraft and the results compare with a 19¢ profit in the 1958 period. It is expected that for the full year, with the jet fleet helping to generate sharply higher earnings, results may approach a record (*Please turn to page 300*)



Good Cheer for the DISTILLERS in 1959?

By Charles Grayson

THE word alcohol comes to us out of the past by way of Arabia, where the ancient word *al-koh'l* was given to powdered antimony, a substance used in those days for darkening the eyes. Today, *alcohol* represents an investment of over \$9 billion and a job for one out of every 60 persons in the country.

For many industries, 1958 was a reminder of the slack-business days of 1933; for the licensed beverage industry, however, 1958 was a proper cause for rejoicing. Not only was it an anniversary year, the 25th since Repeal brought an end to the legally dry days of Prohibition; it was besides, the birthday year of the Forand Act which brought an end to an inequitable taxation arrangement which had been a cause for bitterness within the industry, but which more importantly had been a serious deterrent to price stability.

Last year, perhaps by way of celebrating, the industry threw a Christmas Party for its stockholders in the form of year-end results that were far healthier than had been anticipated. The year's production of 214 million gallons was a few notches ahead of the 1957 level; and the current outlook for 1959 is some 220 million gallons, with a further gain of some 10% forecast for 1964.

Bottled in Bondage

The passage of the Forand Act last September helped to lighten industry hearts considerably. As is well known, the liquor industry provides considerable revenue to both State and Federal Treasuries; since repeal, in fact, the industry has paid some \$58 billion in taxes. Until 1958, the tax-free bonding period expired after eight years. This had the effect of forcing spirits onto the market, for faced with the threat of impending taxes the distiller had little choice but to sell his whiskey on the open market, the alternative, including redistilling or destruction, being neither profitable nor desirable. The impact on prices was compounded by the fact that since World War II large inventories had been built up and production capacity increased.

That the impact was heavy cannot be denied. For example in early 1949 bulk prices for 4-year old Kentucky whiskey (straight whiskey, in industry parlance) were around \$7.75 per original proof gallon; in mid-1955 this figure plummeted to \$1.50.

Now, however, the unfair force-out has been ended. The excise tax of \$10.50 per proof gallon (another industry term which simply means a stand-

ard gallon containing 50% ethyl alcohol by volume) payable only on removal of the whiskey from storage, does not have to be paid at the end of eight years; the distiller can now hold his product for up to twenty years if he so desires. Thus freed from forced sale at the end of eight years, the various producers at last have more leeway with regard to marketing operations.

From The Other Side of The Bar

People, however, over the years change saloons as well as what they order therein. In 1949, for example, in response to a "What'll you Have?" 82% of the people would have requested one of the various blends; by 1958 only 48% would have preferred a blend; this, however, assuming the only choice was straight whiskey or blended whiskey—not to be confused with Rye, an entirely different type of alcoholic beverage. Although our ill-stocked theoretical drinking parlour, as one New York bar euphemistically calls itself, did not serve imported whiskey, gin, or vodka, the trend has been clear. In 1949, 112 million gallons of blends were consumed versus 24 million gallons of straights; in 1958 only 72 million gallons of blends went down the hatch compared with 66 million gallons of straights.

The reason for this trend lies in what happened during the war as a result of restrictions on production. Actually in the late thirties straight whiskeys accounted for the larger part of sales; then with the war came restrictions and the distillers concentrated their promotional efforts on the blends. As inventories of straights improved with the lifting of the restrictions, promotion was redirected along these lines.

Along with resurging preference for the straights, and stronger demand for Scotch, gin and vodka, another trend has become apparent. As evidenced by the increasing number of straight, or Bourbon whiskeys which are being marketed in lower proofs (which simply means less bounce to the ounce), the consuming public apparently prefers a lighter, less lethal load.

Is The Sun Over The Yardarm?

With the passage of the Forand Bill, firmer prices seem assured in 1959, and throat-cutting price wars may disappear from the scene. Furthermore, demand seems to be on the increase. Not only is the recovery in the over-all economy making more money available for luxury purchases, but on the whole these purchases are being upgraded in quality.

Interestingly enough, there are two further factors on the bullish side of the ledger which have received little comment. Although it is impossible to judge with accuracy the full effects these developments may have, they bear mention. First, as a result of increased price stability, the credit rating of the industry has gone up considerably. Despite the backing of national advertising, the retail outlet has hitherto not always been able to procure needed loans for expansion and local promotion; although in 17 states the state itself controls the retailing of alcoholic beverages, in the remaining 33 the neighborhood liquor stores can help greatly in building up additional sales and volume for the in-

dustry. Secondly, the important change in the regulations regarding excise stamps could be quite beneficial to the distillers themselves. With an excise stamp no longer required on each bottle of liquor, the large amounts of money, usually obtained through expensive short-term loans, tied up in tax stamps will no longer be required.

At the present time, on the debit side, it must be pointed out that because of increasing wages and costs of materials, profit margins this year may tighten somewhat. On balance, however, further improvement seems assured this year, with total output estimated around 220 million gallons. Earnings should be higher, and several of the companies have interesting possibilities at this time.

Finally, the consumer can take heart even if he is not also a stockholder. Recent experiments indicate a break-through may be in sight in the development of a hangover-proof whiskey; and, to top this off, there are reports that instant liquor may not be too far in the future.

American Distilling, one of the better known independent distillers, is a non-diversified producer of a reasonably broad product mix which includes the Guckenheimer, Bourbon Supreme, and Old American labels. The company has concentrated its efforts mainly in the monopoly states where retail outlets are controlled by state governments. American is an aggressive merchandiser as is reflected in the fact that earnings have increased every year since 1953, an admirable record indeed. It should be noted however, that the company concentrates on the lower-priced brands and has one of the narrowest profit margins in the industry.

Sales this year could approach the \$85 million mark, and earnings are projected at near \$4.25 per share for fiscal 1959 which ends in September. Indications are that the excellent earnings trend exhibited in the past will continue into the future, though perhaps at a somewhat reduced rate. At a recent price of 44 the stock is selling at 10.2 times estimated 1959 earnings. The current dividend yields 3.6%, and there are some indications that the \$1.60 rate may be increased. It would seem that at least for the present the shares are better held than sold, although as noted above future appreciation may be at a somewhat slower rate.

Brown-Forman Distillers is one of the larger so-called independent distillers, and as such has at least in the past been somewhat more flexible in times of industry stress. The company makes leading Bourbon whiskeys such as Early Times and Old Forester and the line was materially strengthened last year by the acquisition of the small, but well known Jack Daniels distillery. Various specialty items such as Bols are marketed by the company. The only extent to which Brown-Forman has diversified has been in the as yet unimportant area saleswise of photographic chemicals.

The company's earnings record in recent years has been rather flat despite the addition of new lines. On the strength of the improved outlook for sales, absence of consolidation expenses, and the greater life of bonded whiskey before taxes, earnings for 1959 are estimated at around \$2.75. The stock is currently selling at 34 which is 12.4 times these estimated results. The 80¢ dividend yields 2.3% and further stock dividends appear likely.

Statistical Data on Leading Distillers

	Full Years				1st Quarter		Dividend		Price Range	Recent Price	Div. Yield
	Net Sales		Net Per Share		Earned Per Share		Per Share				
	1957	1958	1957	1958	1958	1959	1958	Indicated 1959*			
	—(Millions)—										
American Distilling	\$76.2 ¹	\$81.1 ¹	\$3.13 ¹	\$3.45 ¹	\$1.68 ²	\$1.96 ²	\$1.60	\$1.60	50 -22¾	44	3.6%
Brown-Forman Distillers	97.3 ³	91.4 ³	2.03 ³	1.87 ³	.54 ⁴	1.53 ⁴	.80	.80	37½-13¾	34	2.3
Distillers Corp - Seagrams	746.3 ⁵	704.5 ⁵	2.91 ⁵	2.94 ⁵	2.04 ⁶	1.76 ⁶	1.70	1.70	36¼-25½	34	5.0
National Distillers & Chem.	538.5	524.3	2.05	1.76	.49	.54	1.00	1.00	34½-20¾	31	3.2
Publicker Industries	140.5	132.6	^d .12	^d .60	^d .33	N.A.	⁹	—	15¼- 5½	11	—
Schenley Industries	469.9 ⁸	497.5 ⁸	2.45 ⁸	2.63 ⁸	1.86 ⁷	1.84 ⁷	1.00 ¹⁰	1.00 ¹⁰	48½-18½	35	2.8
Walker (H.) - G. & W.	396.1 ⁸	384.0 ⁸	2.61 ⁸	2.54 ⁸	1.38 ⁷	1.43 ⁷	1.40	1.40	37½-25½	35	4.0

*—Based on the latest dividend rate.

d—Deficit.

N.A.—Not available.

¹—Year ended Sept. 30.

²—6 months ended March 31.

³—Years ended April 30.

⁴—6 months ended Oct. 31, 1957, and 1958.

⁵—Year ended July 31.

⁶—6 months ended January 31.

⁷—6 months ended February 28.

⁸—Year ended August 31.

⁹—Paid 5% stock.

¹⁰—Plus stock.

Company Ratings

	Rating		Rating
American Distilling	B1	Publicker Industries	D3
Brown-Forman Dist.	C1	Schenley Industries	B2
Distillers Corp. - Seagrams	B2	Walker (H.) G. & W.	B1
National Distillers & Chem.	B1		

RATING KEY:

A—Best grade.
B—Good grade.

C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

On the basis of the over-all picture, however, it would seem that better commitments exist at this time and at least for the present we could be inclined to avoid this issue.

Distillers Corp-Seagrams is a large Canadian producer, accounting for nearly one-third of the industry's sales. Because over 90% of the company's business is done in the United States, it has been a prime target for domestic distillers' target practice on both the Congressional and marketing levels. Products, primarily blends, are sold under the 7 Crown, Calvert, and Four Roses labels, among others. A new straight whiskey has been added to the predominately blended line in an effort to boost sales volume and advertising outlays have been enlarged.

Sales in recent years have shown little growth and earnings have been uninspiring. In fiscal 1958, ending July 31st, Distillers Corp. turned in earnings of \$2.94 per share; there seems little likelihood that results for fiscal 1959 will show any improvement and an even poorer report could be forthcoming. On the whole the situation seems uninteresting. The stock at 34 is selling at at least 12 times estimated 1959 results, and there are no concrete indications that 1960 earnings will be sufficiently improved to warrant new commitments at the present time. Despite the fact that the \$1.70 dividend yields a somewhat richer than average 5%, we would be inclined to avoid the stock for now, and await further developments.

National Distillers boasts a full scale chemical operation (including polyethylene and industrial alcohol facilities) together with a reasonably complete product line which includes such well known brands as Old Granddad, Old Crow, Old Taylor, and Gilbey's. The well-established Bourbons are being marketed to some extent in the new lower proofs. At the present time the chemical division accounts for around 35% of sales, but if the current rate of growth continues a 50%-50% relationship between the divi-

sions may result fairly soon. The company appears to have built a solid base for the future. Besides the potential in chemicals, National's sales of distilled spirits rank it second among the domestic producers and this position should certainly be maintained.

While in recent years sales have not been overly impressive, 1959 should see a recovery to perhaps the \$555 million mark. Earnings, somewhat depressed in recent years due to the large costs attendant upon entry into chemical production, should rebound in 1959 to the \$2.25 area. The company appears to have fully turned the corner, and the common stock selling about 31 appears attractive for the longer pull. The current price/earnings ratio is 13.8, and the dividend \$1.00.

Publicker Industries produces a line of consumer-type alcohol as well as industrial alcohol and related chemicals. Brand names include Kinsey, Old Hickory, Charter Oak, and Dixie Belle gin. In 1958 total sales and revenues were off some 6% with these poorer results compounded on a per share basis by a strike, narrower profit margins, and generally reduced demands for commercial chemicals.

The company has a poor past record. A deficit has been incurred in four out of the last five years, and about all stockholders have had to assuage their thirst—besides of course, the company's potable spirits—have been periodic stock dividends. There are some noteworthy points in the situation, however. In the first place 1959 should see a substantial increase in the demand for industrial chemicals, and the outlook is improved for beverage alcohol. The stock sells substantially below asset value, and the balance sheet shows seemingly ample working capital with a favorable current ratio. Furthermore there is no long-term debt. At a current price around 11, the stock has some strictly *speculative* appeal, although the situation is considered unsuitable for most investors.

Schenley Industries could well be called the Emancipator of the industry, (Please turn to page 304)



FOR PROFIT AND INCOME

Earnings

Many stocks have been selling at excessive multiples of earnings, but it is not true to say that the market has been ignoring earnings. Whether they are too high or not, most favored stocks have the aid of strong upward trends in earnings. Where earnings are relatively poor or disappointing, performance of the stocks is generally sub-average. To cite just a few, earnings which give holders or potential buyers nothing to cheer about account for recent new lows in Pittsburgh Plate Glass, Outboard Marine, Filtrol, Foote Mineral, Koppers, and Lehigh Portland Cement. If you think profits have lost any meaning, look at the widely varying performances of aircraft stocks and of domestic oils — in all cases tied closely to good, poor or indifferent earnings.

The Funds

On the whole, mutual funds and close-end investment trusts bought stocks less heavily on bal-

ance in the first quarter than in the final 1958 quarter. The shift toward caution was most marked in the case of balanced mutual funds, a number of which sold stocks on balance and increased holdings of cash and Government obligations. A few of the stocks bought most heavily by investment managers in the period were Ford Motor, General Motors, Martin, Monsanto Chemical, General Electric, Philips' Lamp Works, Atlantic Refining, American Viscose, Jones & Laughlin Steel and Westinghouse Electric. Issues sold heavily on balance in-

cluded Standard Oil (New Jersey), Boeing, American Cyanamid, Parke Davis, Consolidated Electrodynamics, Commercial Credit, Burroughs Corp., Amerada Petroleum, Kroger Company and Bethlehem Steel.

Comparison

Investment-fund manager cannot risk "trying for a killing" in so-called Space-Age stocks or other roller-coaster issues in which speculators have made and lost money in recent months. They keep portfolios widely diversified.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
Commercial Solvents	Quar. Mar. 31	.24	\$.13
Atchison, Topeka & Santa Fe Rwy.	Quar. Mar. 31	.45	.24
Baltimore Gas & Electric	Quar. Mar. 31	1.02	.80
Lone Star Cement	Quar. Mar. 31	.38	.26
Western Pacific R.R.	Quar. Mar. 31	2.27	.95
Calumet & Hecla	Quar. Mar. 31	.66	.17
Aeroquip Corp.	Quar. Mar. 31	.58	.16
Siegler Corp.	Quar. Mar. 31	.33	.14
American News Co.	Quar. April 3	.53	.22
Consolidation Coal Co.	Quar. Mar. 31	.56	.35

CORRECTION—In our listing in the April 25th and May 9th issues, the final two columns should have been headed "1959" and "1958" as above. Due to typographical errors the years were not correctly identified.

They do a great deal of switching around — but the net result in most cases, especially over any fairly short period, is a variation in total portfolio valuation fairly closely in line with performance of the Dow industrial average or any other general index of stock prices. Portfolio appreciation is held down to some extent by substantial holdings of utilities and other conservative stocks. In the 1959 first quarter the net rise of the Dow industrial average was 3.1%. Here are the quarter's gains in per-share asset values of some larger investment companies: Lehman Corp. 2.6%, Lazar Fund 2.8%, Tri-Continental 0.4% One William Street 1.1%, Madison Fund 1%. Massachusetts Investment Trust showed virtually no change.

"Electronics"

By personal observation the average person has some familiarity with radio or television or ordinary electrical equipment; but knows little or nothing about "electronics". It is a broad and alluring word, appealing to the imagination of investors and speculators. The biggest companies in electronics are General Electric and Westinghouse, makers also of standard electrical equipment in great variety and of home appliances. They used to be called "electrical equipments" and that is still the most accurate term. Some of today's "electronic" stocks were called radio stocks back in the 1920's. They later became radio-television stocks and, in some cases (Admiral and Philco) radio-television-appliance stocks. The bread and butter of most companies in this broad field is still in products well known to the public. Many newer and smaller concerns are largely or wholly makers of electronic equipment or

components for military uses. The ultimate possibilities are no more unlimited than those of aircraft makers proved to be. A good many will fold up when the going gets rough. Meanwhile, the exciting and excessive stock market boom in "electronics" will in due time go the way of previous market fads, leaving many stock owners sadder, if not wiser. If you insist on holding or buying "electronic" stocks, we advise you to give preferences to issues of the larger, long-established companies, rather than to those whose names were unknown to you not so long ago.

Utilities

Utility stocks generally have "run out of steam" in recent weeks. The main reason is large prior rise, reducing average yields sharply and — in the case of favored growth issues — discounting the future too far ahead. Bond yields, including those of tax-exempt municipals, are increasingly competitive with utility yields, which is at least some part of the story of stock market action of utility stocks. There is still a sound case for long-pull investment in growth utilities on sizable reactions, although you should not count on any great medium-term appreciation. Among the better growth utilities are American Electric, Central & South West, Middle South Utilities, Southern Company and Texas Utilities. There is basic merit in Florida Power and in Florida Power & Light, but they are the most extremely priced. Otherwise, our preference is for utilities with yields well above average, and not for the in-between issues outstanding neither for growth nor current return.

Good Yields

There were times when "good

yields" on reasonably safe income stocks could be figured as $5\frac{1}{2}\%$ to $6\frac{1}{2}\%$. Not now. Today the average current return is around 4%. But you can beat that substantially in some instances without assuming undue capital risk. Yields ranging from about $4\frac{1}{2}\%$ to 5% are currently offered by the following stocks: American Can, American Tobacco, C. I. T. Financial, Equitable Gas, W. T. Grant, Iowa-Illinois Gas & Electric, Kresge and Woolworth.

Shoe Stocks

This year's results for principal companies in the shoe industry will be the best in a long time. Brown Shoe is the best of the stocks, but has had a large rise. Around 66, yield of the \$2.20 dividend is about 3.3%; and would be less than 3.7% if the rate were raised to \$2.40, as is possible. Since the trend is favorable and a split at least conceivable (the stock was split 2-for-1 in 1956 and in 1946) we would not sell the issue. For new buying for income, there is something to be said for Melville Shoe. It might earn around \$2.00 or more a share this year, against 1958's \$1.80. After being maintained for many years at \$1.80, the dividend was cut to \$1.30 last July. It is reasonable to figure that management would like to sweeten the present rate to some extent as soon as feasible. Around 28, against an earlier high of $39\frac{3}{4}$ in 1955, the stock yields 4.6% and would yield 5% on even a \$1.40 rate, with potential for moderate appreciation.

Pointing Higher

Based on technical indications and gains in earnings, the following stocks are among those with apparent potentials for further rise: Armstrong Cork, Bendix Aviation, Dana Corp., Emerson Electric, Delaware & Hudson, Ford Motor, Harbison-Walker, Link Belt, Martin, Radio Corp., Ingersoll Rand and Simmons Co.

Unpromising

Recent and current behavior suggests below-average market prospects at this writing for the following stocks: Alcoa, Amerada, ACF Wrigley Stores, Jaeger

(Please turn to page 308)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

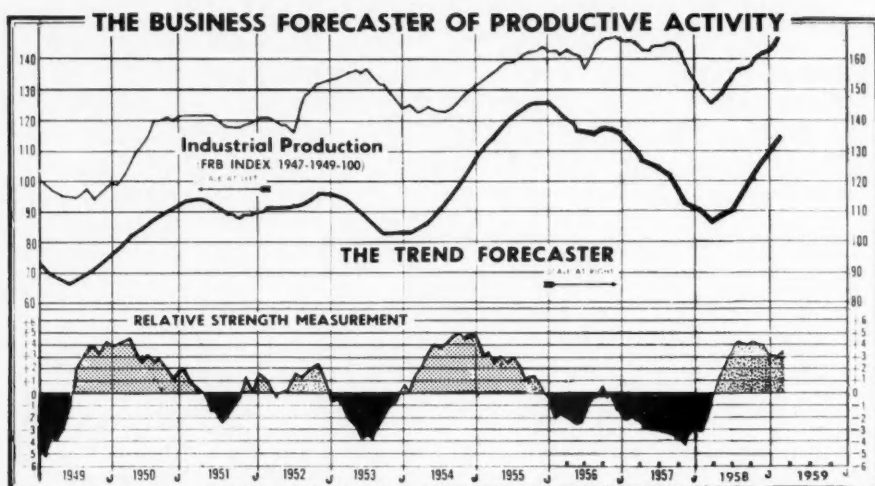
		1959	1958
Kaiser Aluminum & Chemical	Quar. Mar. 31	\$.17	\$.37
Moore-McCormack Lines	Quar. Mar. 31	.34	.44
Pittsburgh & West Va. Rwy.	Quar. Mar. 31	.01	.45
Foster Wheeler Corp.	Quar. Mar. 31	.90	1.97
Pittsburgh Plate Glass	Quar. Mar. 31	.38	.51
Pittsburgh Fargings	Quar. Mar. 31	.10	.27
United Biscuit of Amer.	Quar. Mar. 31	.16	.39
Central Foundry Co.	Quar. Mar. 31	.32	.81
United Fruit Co.	Quar. Mar. 31	.46	.78

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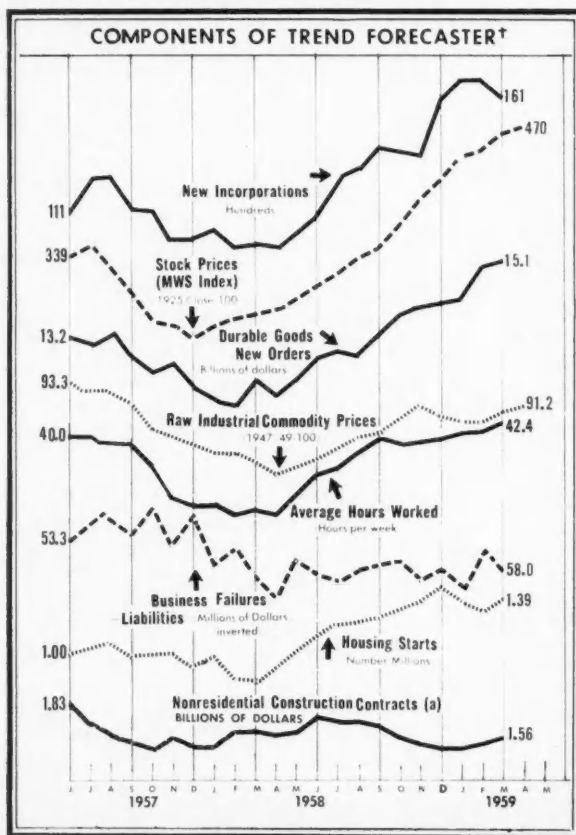
the Business A

Business Trend Forecaster*

INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.



*With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Based on F.W. Dodge data. 2 month moving average. In constant dollars.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of *Trend Forecaster*) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook—the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our *Business Trend Forecaster* of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

As of the start of the second quarter, a clear majority of the components entering into the *Trend Forecaster* remained in an uptrend.

Both stock prices and industrial commodity prices advanced in the latest period, and average hours worked in factories also were higher. Trends in durable goods orders and nonresidential construction were also favorable. Business failures, housing starts, and new business incorporations have recently been fluctuating without a clear trend.

The *Relative Strength Measurement*, after easing slightly around the turn of the year, has continued quite strong in the past few months, staying well above the level of +3 which normally indicates a continuing uptrend. The *Trend Forecaster* itself has advanced rapidly, and has now recovered most of the decline suffered in 1956, 1957 and early 1958. On the basis of the present behavior of the *Relative Strength Measurement* and the *Trend Forecaster*, general expansion in business activity seems probable (apart from the period of any steel strike) throughout the remainder of this year.

s Analyst

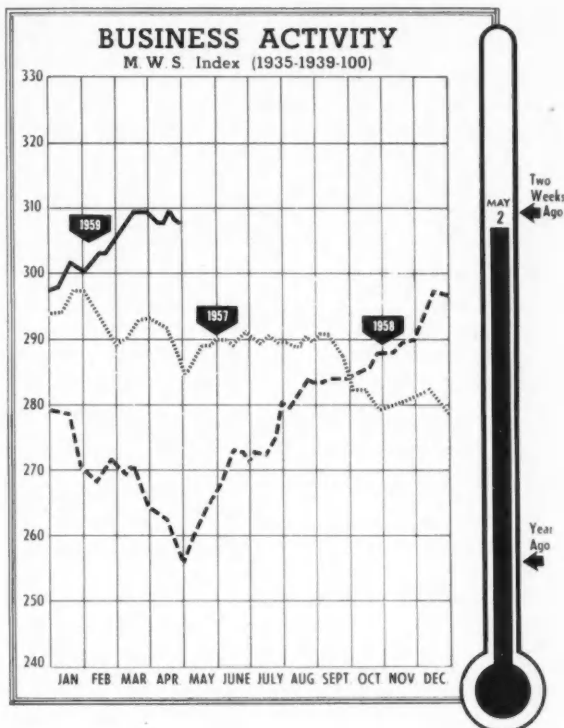
CONCLUSIONS IN BRIEF

PRODUCTION—still rising, notably among durables industries, where gains reflect rising output of machinery, with strong markets for autos, and other consumer durables. The production outlook is now up for the rest of the year, except for period of steel strike.

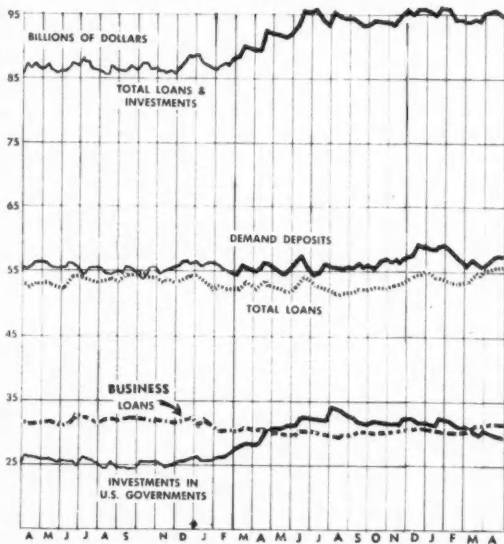
TRADE—retail volume has risen sharply further in the second quarter, to almost an \$18-billion monthly rate. No decline from this level is probable through late fall, which means the retail sector is now a strong general stimulus to business.

MONEY & CREDIT—tightening further, particularly at the long-term end. Probabilities now favor further advance in discount rate, prime corporate rate, and some slight further increase in rates on high-grade corporates.

COMMODITIES—nonfarm commodities continue to rise, but still not rapidly, despite the strong upward pull of inventory accumulation. Probabilities point to a further general rise in industrial prices, continuing throughout the year and perhaps accelerating.



MONEY AND BANK CREDIT (WEEKLY REPORTING MEMBER BANKS)



1957

1958

1959

THE national battery of statistics for the behavior of the American economy in the second quarter of 1959 is evidently going to read very well indeed. By every indication, the expansion has picked up a good deal more momentum, and the addition will show up in a gross national product figure perhaps well above \$475 billion.

The source for much of this new momentum is readily enough localized. Business is not spending a great deal more on inventory accumulation now than it was in the first quarter of the year. And business is not yet spending much more on plant and equipment (although by the end of this year spending of this type is expected to be considerably higher than at present). Nor, strangely enough, is government spending much more now than in immediately preceding quarters.

The source of the new energy in the business system is thus none other than the lowly consumer himself, who has reentered the market for goods and services in a very impressively optimistic buying mood. Sales of autos, for example, have strengthened notably, and for the first time this year are beginning to suggest a selling rate in the neighborhood of six million (including perhaps over 400,000 imports). Appliances are selling well again, although hardly at record levels. And soft-goods volume has advanced further. Perhaps even more striking, if trustworthy figures were available, would be a breakdown of the increase in service expenditures — for travel, recreation, etc.

Total personal spending in the second quarter is evidently running at an annual rate of about \$305 billion — a new record, some \$5 billion above the

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND		Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB).....		1947-'9-100	Mar.	147	145	128
Durable Goods Mfr.....		1947-'9-100	Mar.	160	156	135
Nondurable Goods Mfr.....		1947-'9-100	Mar.	140	139	124
Mining		1947-'9-100	Mar.	123	123	112
RETAIL SALES*		\$ Billions	Apr.	18.0	17.9	16.5
Durable Goods.....		\$ Billions	Apr.	6.2	6.1	5.2
Nondurable Goods.....		\$ Billions	Apr.	11.8	11.8	11.3
Dep't Store Sales.....		1947-'9-100	Apr.	139	139	130
MANUFACTURERS'						
New Orders—Total*.....		\$ Billions	Mar.	30.0	29.7	24.8
Durable Goods.....		\$ Billions	Mar.	15.1	14.9	11.5
Nondurable Goods.....		\$ Billions	Mar.	14.9	14.8	13.3
Shipments*		\$ Billions	Mar.	29.1	28.5	24.9
Durable Goods.....		\$ Billions	Mar.	14.3	13.9	11.7
Nondurable Goods.....		\$ Billions	Mar.	14.7	14.6	13.3
BUSINESS INVENTORIES, ENR MO.*		\$ Billions	Mar.	86.3	85.9	88.5
Manufacturers'		\$ Billions	Mar.	50.3	49.9	52.0
Wholesalers'		\$ Billions	Mar.	11.9	11.9	12.4
Retailers'		\$ Billions	Mar.	24.1	24.1	24.1
Dept. Store Stocks		1947-'9-100	Mar.	148	150	143
CONSTRUCTION TOTAL.....		\$ Billions	Mar.	3.8	3.5	3.3
Private		\$ Billions	Mar.	2.7	2.5	2.4
Residential		\$ Billions	Mar.	1.5	1.4	1.2
All Other		\$ Billions	Mar.	1.2	1.1	1.2
Housing Starts*—a.....		Thousands	Mar.	1390	1320	918
Contract Awards, Residential—b.....		\$ Millions	Mar.	1541	1073	1071
All Other—b.....		\$ Millions	Mar.	1799	1234	1650
EMPLOYMENT						
Total Civilian		Millions	Apr.	65.0	63.8	62.9
Non-Farm		Millions	Apr.	51.3	50.9	49.7
Government		Millions	Apr.	8.1	8.1	7.9
Trade		Millions	Apr.	11.1	11.1	10.9
Factory		Millions	Apr.	12.1	12.1	11.3
Hours Worked.....		Hours	Apr.	40.3	40.2	38.6
Hourly Earnings.....		Dollars	Apr.	2.23	2.22	2.11
Weekly Earnings.....		Dollars	Apr.	89.87	89.24	81.45
PERSONAL INCOME*		\$ Billions	Mar.	369	365	349
Wages & Salaries.....		\$ Billions	Mar.	250	245	233
Proprietors' Incomes.....		\$ Billions	Mar.	59	58	57
Interest & Dividends.....		\$ Billions	Mar.	33	32	32
Transfer Payments.....		\$ Billions	Mar.	26	26	25
Farm Income.....		\$ Billions	Mar.	17	17	18
CONSUMER PRICES.....		1947-'9-100	Mar.	123.7	123.7	123.3
Food		1947-'9-100	Mar.	117.7	118.2	120.8
Clothing		1947-'9-100	Mar.	107.0	106.7	106.8
Housing		1947-'9-100	Mar.	128.7	128.5	127.6
MONEY & CREDIT						
All Demand Deposits*.....		\$ Billions	Mar.	111.6	110.6	106.4
Bank Debts*—g.....		\$ Billions	Mar.	89.4	89.4	77.6
Business Loans Outstanding—c.....		\$ Billions	Mar.	31.2	30.3	30.8
Installment Credit Extended*.....		\$ Billions	Mar.	3.7	3.8	3.2
Installment Credit Repaid*.....		\$ Billions	Mar.	3.4	3.5	3.4
FEDERAL GOVERNMENT						
Budget Receipts.....		\$ Billions	Mar.	8.4	6.6	9.5
Budget Expenditures.....		\$ Billions	Mar.	6.5	6.3	5.7
Defense Expenditures.....		\$ Billions	Mar.	3.9	3.6	3.5
Surplus (Def) cum from 7/1.....		\$ Billions	Mar.	(11.0)	(12.9)	(3.4)

PRESENT POSITION AND OUTLOOK

level of the first quarter. Note-worthy in the recovery of consumer spending is the relatively heavy use which is again being made of instalment credit. By present indications, the growth in instalment debt outstanding in calendar 1959 may be in the neighborhood of \$4.5-5.0 billion, or not very much less than the record growth recorded in 1955. However, a greater proportion of the increase in debt is now occurring outside the automobile market; the 1959 gain in automotive debt may be quite modest, relative to the increase in unspecified "personal instalment loans".

The consumer is thus carrying on his regular function of spreading business recovery around, from raw materials industries into finished goods industries. And because consumer demand is such a dominant element in total demand, the recovery in personal spending is doubtless stimulating new looks at capacity, and capital spending plans, in a host of nonconsumer industries. Consumers have unquestionably added stamina to recovery, by joining in with the uptrend so avidly.

* * *

FIGURES TO WATCH FOR—early in June, the Department of Commerce will release the findings of its regular quarterly survey of businessmen's spending plans. (The survey to be reported in June has been conducted in late April and early May); the question is whether the tabulations (now in process) will show further marked upturn in business spending for capital goods. If they do, it will be widely interpreted as insuring that the recovery will carry through 1959 and well into 1960. All that optimists would now require is evidence of a capital goods boom, on top of the very convincing evidence of a consumer goods boom.

* * *

PROFITS — by all indications, they have taken a very pronounced upward step in the past six months, and are headed still higher in the remainder of this year. In fact, it seems probable that the annual rate of corporate profits, before taxes, has passed the \$50 billion mark for the first time, and is still climbing. In any event, a new annual record seems clearly in prospect. Add to these record earnings a record inflow of depreciation funds, and the cash position of U.S. corporations looks very good indeed.

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1959		1958	
	Quarter I	Quarter IV	Quarter III	Quarter I
GROSS NATIONAL PRODUCT	465.0	453.0	439.8	427.1
Personal Consumption	300.0	295.9	291.5	286.2
Private Domestic Invest.	68.5	61.6	54.5	50.9
Net Foreign Investment	-0.5	0.4	1.7	1.7
Government Purchases	97.0	95.2	92.0	88.3
Federal	54.7	54.2	52.2	49.7
State & Local	42.3	41.0	39.9	38.6
PERSONAL INCOME	365.7	359.5	358.6	348.3
Tax & Nontax Payments	44.7	43.7	43.5	42.3
Disposable Income	321.0	315.8	315.1	306.1
Consumption Expenditures	300.0	295.9	291.5	286.2
Personal Saving—d	21.0	19.9	23.6	19.9
CORPORATE PRE-TAX PROFITS	—	45.2	37.9	31.7
Corporate Taxes	—	23.0	19.3	16.1
Corporate Net Profit	—	22.2	18.6	15.5
Dividend Payments	12.5	11.8	12.5	12.5
Retained Earnings	—	10.4	6.1	3.0
PLANT & EQUIPMENT OUTLAYS	31.2	30.0	29.6	32.4

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	May 2	307.5	308.1	256.0
MWS Index—per capita*	1935-'9-100	May 2	227.4	227.8	191.6
Steel Production	% of Capacity	May 9	94.2	92.8	49.4
Auto and Truck Production....	Thousands	May 9	173	154	105
Paperboard Production	Thousand Tons	May 2	321	304	246
Paperboard New Orders.....	Thousand Tons	May 2	374	311	287
Electric Power Output*	1947-'49-100	May 2	253.6	252.1	227.0
Freight Carloadings.....	Thousand Cars	May 2	674	647	533
Engineering Constr. Awards....	\$ Millions	May 5	403	411	381
Department Store Sales.....	1947-'9-100	May 2	142	142	132
Demand Deposits—c.....	\$ Billions	Apr. 29	57.8	57.9	55.7
Business Failures	Number	Apr. 30	275	300	336

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1959 High	Range Low	1959 May 1	1959 May 8	(Nov. 14, 1936 Cl.—100)	High	Low	May 1	May 8
300 Combined Average	474.9	436.9	473.1	473.0	100 High Priced Stocks	293.8	268.4	293.2	293.3
					100 Low Priced Stocks	650.7	585.4	645.8	644.6
4 Agricultural Implements	426.0	356.2	412.1	415.5	5 Gold Mining	962.8	853.0	861.5	886.8
3 Air Cond. ('53 Cl.—100)	137.2	125.0	132.3	132.3	4 Investment Trusts	190.6	181.5	183.3	181.5L
10 Aircraft ('27 Cl.—100)	1375.1	1191.0	1313.7	1375.1H	3 Liquor ('27 Cl.—100)	1564.6	1459.3	1489.4	1459.3L
7 Airlines ('27 Cl.—100)	1429.4	1079.6	1309.5	1309.5	8 Machinery	527.8	452.4	527.8	527.8
4 Aluminum ('53 Cl.—100)	452.3	392.0	413.6	422.2	3 Mail Order	328.6	253.1	328.6	328.6
5 Amusements	233.3	200.5	233.3	229.4	4 Meat Packing	249.6	204.4	220.1	214.2
6 Automobile Accessories	485.7	413.4	485.7	477.6	5 Metal Fabr. ('53 Cl.—100) ..	207.7	181.3	200.6	200.6
6 Automobiles	111.9	93.7	110.9	110.9	9 Metals, Miscellaneous	409.6	369.4	384.0	376.7
4 Baking ('26 Cl.—100)	41.3	38.7	40.2	40.2	4 Paper	1275.4	1170.1	1240.3	1216.9
4 Business Machines	1343.3	1225.9	1343.3	1330.3	22 Petroleum	885.5	802.0	843.8	835.4
6 Chemicals	781.2	692.9	781.2	781.2	21 Public Utilities	365.4	345.1	355.2	355.2
4 Coal Mining	34.5	28.1	32.2	33.1	6 Railroad Equipment	99.8	86.9	97.2	94.6
4 Communications	203.8	164.6	203.8	200.5	20 Railroads	76.7	71.7	74.6	72.4
9 Construction	178.9	158.7	178.9	174.3	3 Soft Drinks	651.7	599.8	640.1	617.1
7 Containers	1142.6	1021.8	1021.8	1032.8	12 Steel & Iron	419.2	392.5	411.6	396.3
6 Copper Mining	344.6	280.7	330.7	322.4	4 Sugar	144.7	117.4	122.6	117.4L
2 Dairy Products	153.1	138.8	150.3	153.1H	2 Sulphur	863.3	756.4	771.6	756.4L
6 Department Stores	132.0	119.1	132.0	130.9	11 TV & Electron. ('27 Cl.—100)	107.1	65.6	96.0	107.1H
5 Drugs-Eth. ('53 Cl.—100)	467.4	379.5	467.4	455.4	5 Textiles	219.0	176.6	219.0	215.5
6 Elec. Eqp. ('53 Cl.—100)	311.3	268.8	308.7	311.3H	3 Tires & Rubber	254.3	216.1	254.3	237.3
3 Finance Companies	712.1	661.8	712.1	719.3	5 Tobacco	191.5	172.9	188.1	189.8
5 Food Brands	438.1	406.3	422.2	426.2	3 Variety Stores	350.9	331.4	344.4	344.4
3 Food Stores	279.6	260.6	260.6	263.4	20 Unclass'd ('49 Cl.—100)	275.4	239.8	275.4	270.6

H—New High for 1959. L—New Low for 1959.

PRESENT POSITION AND OUTLOOK

BRIGHTER EMPLOYMENT PICTURE —

To add to the general sense of well being that has pervaded the economy in the second quarter, employment rose sharply in April, and unemployment fell substantially. Compared with a record of over 7% of the work force unemployed in April of last year, the percentage this April was about 5.3% — a substantial reduction by any standard.

With particular regard to unemployment, it may be noteworthy that the total decline in unemployment since the trough of the recession is now greater than in the year following the trough of the 1954 recession. Despite all the concern over job opportunities, it is nevertheless true that the unemployed have been absorbed faster in this recovery than in the preceding recovery. And employment itself climbed to a new record for any April.

While these statistics do not eliminate all cause for concern over the future of job opportunities and the number of unemployed, they strongly suggest that nothing new has been added to the problem of unemployment. The oft-voiced concern that a chronic unemployment condition has arisen, and will require government action to solve, is not documented by the figures.

TH

FUTURES MARKETS—Futures were a mixed lot in the two weeks ending May 8, with advances and declines just about counter-balancing each other. Higher prices were registered by corn, soybeans, cotton, rubber, lead and zinc while minus signs were posted by wheat, lard, wool tops, world sugar, coffee and cocoa.

Wheat prices were lower in the period under review, reflecting liquidating pressure on the expiring May option, which lost 8½ cents. New crop futures were moderately lower, with the September option giving up 2½ cents. Favorable weather in the form of needed rain, resulted in improved crop prospects and induced price reactions. The new crop will soon be feeling the effects of approaching harvesting, a period when prices often touch bottom.



BLS INDEX 22 BASIC COMMODITIES

(1947-1949-100)

Month	Index Value
OCT.	86.5
NOV.	87.5
DEC.	86.5
JAN.	86.0
FEB.	84.5
MAR.	86.5
APRIL	86.5
MAY	87.5

MWS RAW MATERIALS SPOT PRICE INDEX

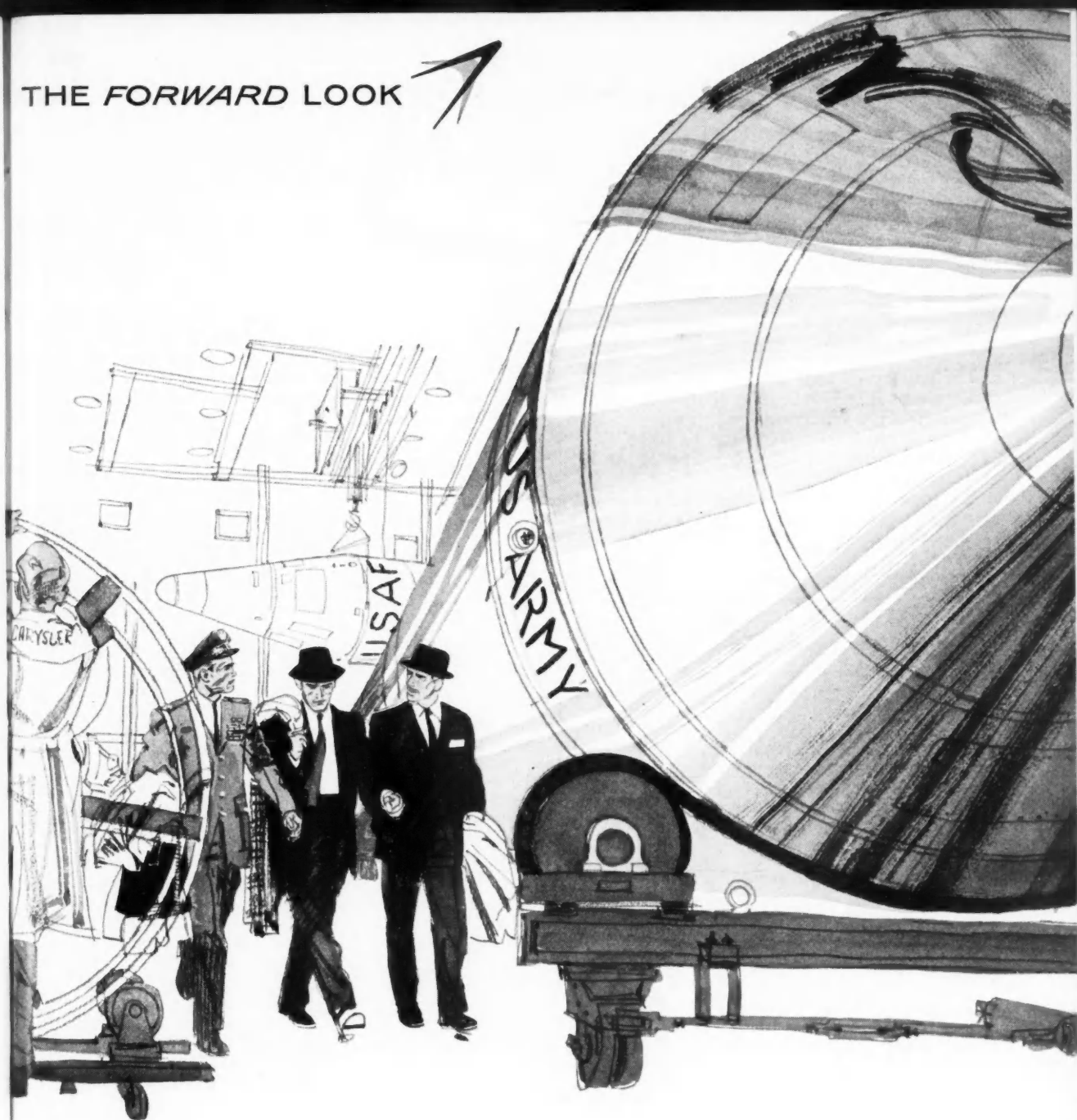
Month	Index Value
OCT.	150.0
NOV.	154.0
DEC.	152.0
JAN.	152.5
FEB.	152.5
MAR.	158.0
APRIL	160.0
MAY	159.5

DOW JONES FUTURES INDEX

Month	Index Value
OCT.	151.5
NOV.	155.5
DEC.	150.5
JAN.	148.5
FEB.	147.5
MAR.	150.5
APRIL	152.5
MAY	151.5

DOW-JONES FUTURES INDEX					
12 COMMODITIES					
AVERAGE 1924-1926—100					
	1959	1958	1953	1951	1941
High of Year	152.7	159.0	166.8	215.4	84.6
Low of Year	144.2	147.2	153.8	174.8	55.5
Close of Year		147.6	166.5	189.4	84.1

THE FORWARD LOOK



America's most "sure-fire" missiles—Jupiter and Redstone—roll off parallel production lines at the Chrysler Corporation-operated U.S. Army Michigan Ordnance Missile Plant near Detroit. Only automobile maker engaged in the production of large ballistic missiles, our engineers apply technical know-how and mass production experience to the development, engineering, manufacture and testing of missiles of unmatched reliability. Many Chrysler Corporation-produced missiles have been fired since we entered the field in 1952, and the batting average for successful firings is over 90%.

CHRYSLER CORPORATION

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to three listed securities at reasonable intervals.
3. No inquiry will be answered which does not enclose stamped, self-addressed envelope.
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Federated Department Stores

"I have Federated Dept. Store stock for four years and I wondered whether it has reached its peak. It has done very well. What is your opinion?"

Federated Dept. Stores has a very experienced and competent management and sales have shown a steady rise in each of the past 20 years with the fiscal year ended January 31, 1959 scoring a record high level despite the business recession of last year.

For the fiscal year ended January 31, 1959 Federated's net income after taxes rose to \$28,084,620 compared with \$24,973,512 net in 1957.

Earnings per share were \$3.65 in fiscal 1958 against \$3.24 in 1957, figured on the average number of shares outstanding in each year.

Sales rose to \$653,154,259 in fiscal 1958 compared with \$635,591,528 in 1957.

Federated's annual dividend rate was increased to \$2.00 per share from \$1.80 with the 50 cent quarterly paid on April 30, and this increase is the second within 12 months and the 6th within the past 10 years.

The sales increase in the past year was 2.8%. Ratio of net income to sales in 1958 was the highest since Federated's 1950 fiscal year.

Federated plans to continue developing downtown stores and to operate as many full line suburban branch stores as its trading areas will support profitably. In addition, the chain is interested in growing by developing into other metropolitan areas that show dynamic population and business trends provided the development can show sufficient profitability.

Federated Dept. Stores Inc. operates 43 stores including branches throughout the country and includes Abraham & Straus, Brooklyn; Bloomingdale's, New York; The Boston Store, Milwaukee; Burdines, Miami; Filene's, Boston; Foley's, Houston; Lazarus, Columbus; Sanger's, Dallas; Shillito's, Cincinnati and 9 Federated Stores located throughout the southwest in the states of Oklahoma, Texas, New Mexico and California.

The increase in population in the territory served and Federated's capable and experienced management indicate further progress ahead.

U. S. Plywood Corporation

"I have been a subscriber to your Magazine for a number of years and find it very informative and profitable. I would appreciate receiving late data on U. S. Plywood Corp."

S. C., Akron, Ohio
U.S. Plywood Corp. is the lead-

ing manufacturer and distributor of plywood. It is fully integrated. Owns 36 manufacturing processing plants and has raw material sources believed sufficient for many years operations. Timber resources are estimated at over 4 billion feet.

For the fiscal year ended April 30, 1959 U.S. Plywood Corp. expects net earnings to exceed \$4.00 a share, compared with \$6,378,900 or \$2.47 a share in fiscal 1958. The chairman of the board recently expressed optimism on the outlook for the fiscal year 1960 but stated stable prices for fir plywood and no drop in the rate of home building was necessary to uphold his views.

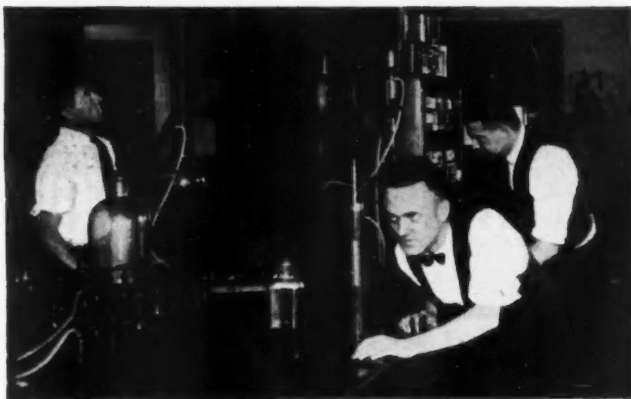
The company reported sharply improved earnings and sales for the third fiscal quarter and for the 9 months ended January 31, 1959.

Net earnings for the quarter ended January 31, 1959 were \$2,167,000, after estimated income taxes of \$1,773,000. This was equal, after preferred dividends, to 86 cents per share on the 2,403,990 shares of common stock outstanding at the end of the period. In the corresponding 3 months a year ago, net earnings were \$1,026,000 after estimated income taxes of \$389,000, equal to 38 cents per share after preferred dividends, on 2,389,926 shares of common stock then outstanding.

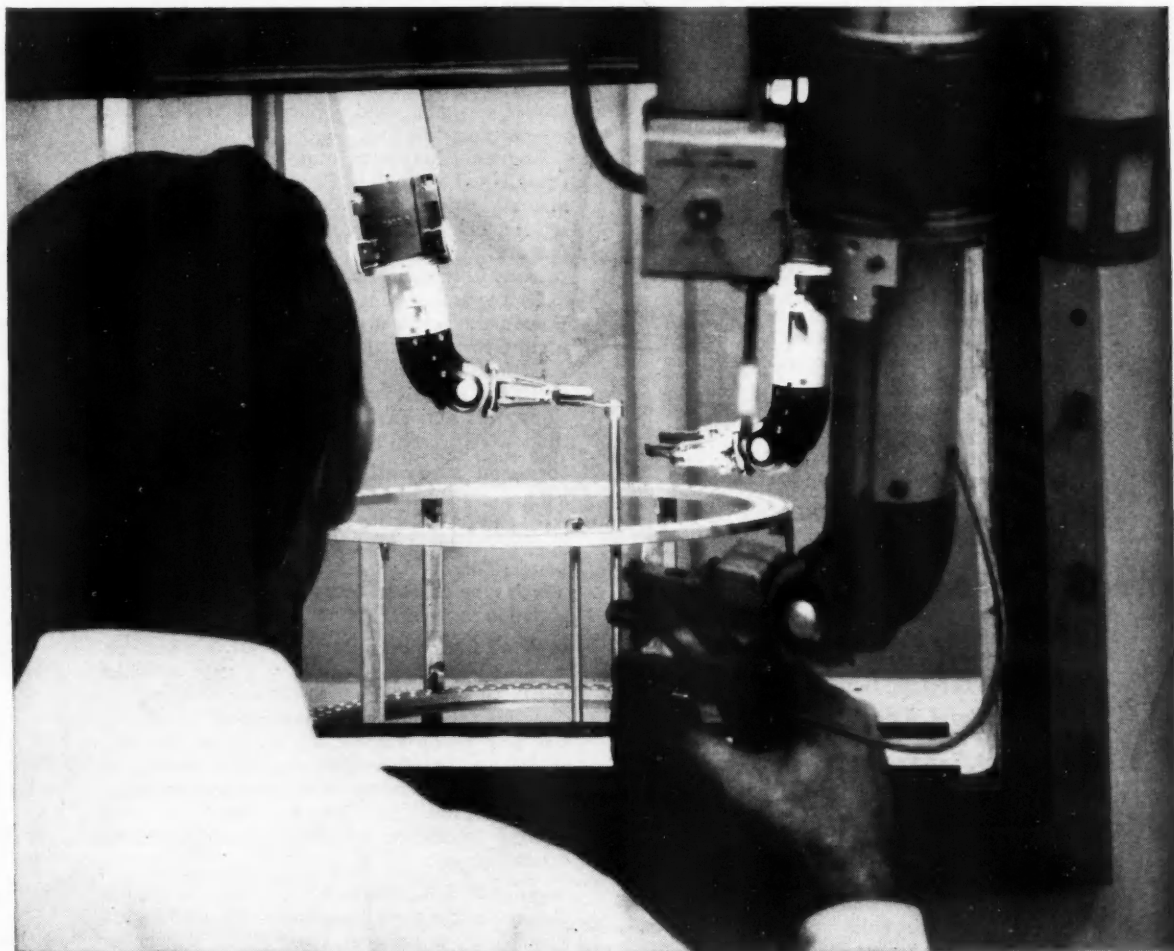
Sales for the quarter were \$56,503,000 compared with \$47,190,000 in the equivalent 3 months period last year.

Net earnings for the 9 months were \$9,869,000 after estimated taxes of \$6,696,000 equal, after payment of preferred dividends, to \$3.96 per share on 2,403,990 shares of common stock outstanding. Net earnings after taxes included \$2,512,500 equal to \$1.05 per share of non-recurring profit on the disposition of the company's minority interest in Val-
(Please turn to page 308)

Oil research— from test tube to radioactive cobalt



YESTERDAY. Decades ago, Texaco scientists worked with relatively crude laboratory equipment, as they probed the fundamental mysteries of oil. Nevertheless — though early oil research was primitive — it resulted in important improvements in petroleum products. Many of these improved products were pioneered by Texaco.



TODAY. Texaco scientists continue their search for basic petroleum knowledge, now using such ultramodern tools as radioactive Cobalt-60 in one of the world's most fully-equipped industrial research laboratories. This is only part of Texaco's great research center at Beacon, N. Y., one of the Company's four modern research centers. Hundreds of Texaco scientists are continually working to create new and better products for more and more people.

TEXACO

... CONSTANT PROGRESS
IN OIL'S FIRST CENTURY



Lockheed Management reports on Lockheed's growth position

1. LOCKHEED'S NEW LOOK

The past year or so has been the busiest in Lockheed's history. During the past 15 months we:

1. Delivered a dozen airplanes a week.
2. Made a first flight of a *new type* missile, space vehicle, or airplane every 40 days.
3. Performed \$1.3 million in missile-satellite business every working day.

Sales for 1958 rose to a record \$962.7 million. Earnings for 1958 were up 14% over 1957. In 1959 sales have maintained their all-time peak rate—\$278.6 million for the first three months. Earnings for 1959's first quarter, while substantial, were below the 1958 level. Earnings represented a profitable return on military programs and commercial spares and services, but a loss on initial deliveries of Electra airliners. The Electra's successful introduction into airline use, however, has heightened our long-term sales prospects.

But these past months have been more than a period of heavy production. They have been months of preparation for the golden quarter-century that lies ahead.

They have been months in which Lockheed took the critical steps to broaden the hard core of its aircraft-missile work into the surrounding circle of related sciences. No longer just an airplane company, Lockheed moved confidently into areas where the future will be found.

2. LOCKHEED EXPANDS INTO NEW FIELDS

Years of study and planning came to fruition in closing months of 1958 and early 1959 in a series of expansion moves. We added new divisions and reorganized old ones. Here is what we have done:

Electronics and Avionics Division. We formed this division to manufacture and market electronic components, equipment, systems, and advanced instrumentation.

It has a bright growth potential. The Electronic Industries Association estimates 46% of total Defense Department missile expenditures is for electronic components. In aircraft the average electronics share is 18.5% and forecasts in commercial and industrial electronics are for 33% to 66% gains in the next five years.

Lockheed is no neophyte in the electronics field. We have had years of experience in aircraft and missile electronics. We have 3000 engineers and technicians who will remain at work in this field in other divisions. Last year we performed \$30 million in electronics design and fabrication.

Puget Sound Bridge & Dredging Company. We acquired control of this company—the third largest Pacific Coast shipbuilding firm and a leader in general heavy construction. This move can place us in the nuclear-powered submarine and ship field, strengthen our bid on construction projects, and expand our ability to build and manage ground support for missile and space activities.

Lockheed Nuclear Products. If today's opportunities are in electronics, tomorrow's will be in nucleonics. Slow in coming, nuclear power is nevertheless inevitable, and applications of nucleonics are growing daily.

To build a long-term future in this vital area, we established a Nuclear Products branch at our Georgia Division. It has already made sales of training reactors to colleges. It plans the design, manufacture, and installation of large heat process reactors in fuel-short regions.

Last year Lockheed began operating the Air Force's multi-million dollar nuclear laboratories in north Georgia, near Dawsonville. Designed to test the effects of radiation on materials, component parts, and aircraft systems under operating conditions, this new facility is the most modern in the U.S.

Lockheed Monorail System. Outgrowth of our long efforts to increase utilization of our versatile skills and facilities, we have received a contract to design and build a \$5 million monorail line for Seattle. This first U.S. monorail opens prospects for similar proposals to relieve many other urban transportation problems.

Lockheed Aircraft International. We have regrouped many of our extensive foreign activities into this new subsidiary. LAI will work out package ideas for foreign countries embracing skills, services, and products of all our divisions. They will encompass aircraft manufacture, sales, repair, and service; airport services; communications; missiles; electronics; nucleonics; ground support; and other elements to develop integrated transportation and defense systems.

Lockheed, S.A. This new subsidiary, located in Mexico, makes the experience of all our divisions available to government and business leaders for long-range industrial development programs.

Lockheed Azcarate, S.A. First definite step in this Mexican program, our new affiliate is beginning an aircraft manufacturing program below the border—a light utility plane suited for many jobs at high and low altitudes and in varied environments.

3. LOCKHEED STRENGTHENS ITS POSITION

Expansion and diversification are our stake in the future. More than that, they are our claim on the present. To assure our position as system manager for today's complex weapons we must have a broad range of technical and managerial skills. From each of our expanded activities—electronics, nucleonics, shipbuilding construction, foreign operations—we draw the knowledge and experience that permit us to obtain large contracts here and now. But we do not forget, in this concentration on new things, the solid worth and growth possibilities of the old.

Military Aircraft. Still vital for our defense, equally as important as a prelude to space flight, manned military aircraft occupy an important place in the future.

Our F-104 STARFIGHTER, holder of world records for speed, altitude, and time-to-climb, will be manufactured in quantity here and abroad for West Germany and NATO defense and has excellent possibilities of being selected by other foreign countries.

Our C-130 HERCULES continues to be vital to our nation's airlift and is drawing much interest from other countries.

In the growing concern over submarine defense, our anti-submarine efforts rise in importance. Our P2V anti-submarine patrol plane, in production since 1945, will be succeeded by our vastly improved P3V, for which we have pre-production contracts.

In the field of airborne early warning we have had a decade of success. We are proposing a new early warning weapon system to meet the continuing threat of coastal attack. And we are proposing many other kinds of aircraft for the future—new transports and trainers, vertical takeoff and landing planes, air rescue vehicles, and others.

Commercial Aircraft. This year brings peak deliveries for our new prop-jet ELECTRA. It is proving out on the world's airlines, and we expect sales to grow.

But beyond this are our plans for the future—executive transports and air-freighters already in production; supersonic transports, air buses, and family planes now on the drawing boards. Business, private, and airline flying will expand in the sixties as all three have in the fifties.

Missiles. POLARIS, DISCOVERER, ARGUS—these are names to conjure with. Less well-known are X-7, X-17, and KINGFISHER. All are Lockheed missile and space projects, and there is no limit to their potential.

The POLARIS, the Navy's newest, most formidable weapon, is strongly influencing the nation's entire defense strategy. DISCOVERER is the series of space biology probes for the Air Force and Advanced Research Products Agency, forerunner to space travel and satellite defense systems. Lockheed is system manager for both.

Lockheed missile and satellite sales have multiplied 42 times in the past five years. Out of the varied research programs of our Missiles and Space Division are coming discoveries and proposals that will catapult us into space and enrich our daily living. As missile and space programs climb, Lockheed will climb with them. The assault on space is only just begun.

4. FORMULA FOR GROWTH

Our present programs, recent expansion into new areas, continuing diversification—these are the details. Behind them, overriding them in importance, is a broad managerial philosophy that welcomes the future and prepares for it.

Through the years we have plowed back 60% of our earnings after taxes to assure our future. Last year we spent over \$15 million on new facilities and equipment. For the current year we have earmarked another \$18 million.

We emphasize research. Although more than nine-tenths of our tremendous \$349 million research and development work last year was for government agencies, we performed over \$25 million of R&D work with our own funds. Combined government-company R&D work in 1959 will exceed \$400 million.

We emphasize brainwork. In 1959 our employees with doctorates and other science and engineering degrees increased to 4600, nearly one-tenth of our total work force. This was a 30% gain over 1957.

We emphasize management. Our management and executive programs, started years ago, have been continually reviewed and strengthened. Out of these programs is coming a wealth of managerial material that has made our diversification work well, and will provide Lockheed with management skills of the highest order in years to come.

★ ★ ★

And this is the greatest growth potential of all—brainpower, technological and managerial skills, dedication to a tradition of leadership, and burning faith in the future. These are Lockheed's formula for growth.

LOCKHEED

JET TRANSPORTS • JET FIGHTERS • JET TRAINERS • COMMERCIAL & MILITARY PROP-JET TRANSPORTS • ROCKETRY
BALLISTIC MISSILE RESEARCH & DEVELOPMENT • WEAPON SYSTEM MANAGEMENT • ANTI-SUBMARINE PATROL AIRCRAFT
NUCLEAR-POWERED FLIGHT • ADVANCED ELECTRONICS • AIRBORNE EARLY-WARNING AIRCRAFT • AIRPORT MANAGEMENT
NUCLEAR REACTOR DESIGN & DEVELOPMENT • GROUND SUPPORT EQUIPMENT • WORLD-WIDE AIRCRAFT MAINTENANCE

Aircraft In New Stage Of Transition

(Continued from page 275)

panies themselves are more aware of this trend than anyone else. All, therefore, are making strides in the new fields. Some, however, are far more advanced than others.

Martin Co., which has already been mentioned in connection with the Bold Orion and the Dyna-Soar weapons systems has probably outpaced the others in terms of the total impact of the missile program on its sales and earnings. Until recently the company was primarily an aircraft producer, yet today its contracts are being "phased out" while missile and electronics work are building up fast. In addition to the above weapons, Martin is a major contractor for several other missiles including the Pershing, Lacrosse, Bullpup, Matador and the Titan. The company also is prime contractor in the nation's Nike-based missile defense system.

In 1958, the 60 percent of revenues derived from missiles and electronics were profitable dollars. Sales rose from \$424 million to \$484 million, and per share net climbed to \$4.01. Even more significant, however, is the fact that first quarter earnings almost doubled last year's, \$1.04 against 58¢. With its finger in many important pies, Martin's future appears brighter than its chaotic past.

Also high on the list of companies geared to the new age is **General Dynamics**, which has been successful in keeping itself in the vanguard all through the rapid changes of the last decade. The company's diversified business includes 6 major missile contracts including the Atlas intercontinental ballistic missile, designed to be our "ultimate" weapon; several contracts for fighter planes including the F-102 and its successor the F-106; primary contracts on atomic powered submarines, and two commercial jet airliners, the "880" and the "600".

Deliveries were well maintained in 1958 although sales dipped slightly to \$1,511 million from \$1,562 million a year ago. Earn-

ings, however, dropped over 20 percent as research and development costs of new products cut into profits. For the year, per share earnings fell to \$3.71 against a record \$4.80 in 1957. Moreover, in the first quarter earnings were down about 4%. Nevertheless, full year results should make a better showing, and after 1960 sales and earnings should rise as more and more of the company's projects reach full production schedules.

Boeing Airplane, traditionally one of the industry's major producers, is now in a transitional phase. By 1961 it will lose its lead in the bomber field to North American Aviation, as that company's B-70 chemical bomber replaces the B-52 as our major manned bomber. Some of the impact of this loss, however, will be offset by the sub contract just awarded Boeing for wings for the new aircraft.

In addition, the company will step up its deliveries of KC-135 jet tankers and its Bomarc surface-to-air missile should swing into peak production. Furthermore, Boeing's "707" jet airliner is one of the principal aircraft being purchased by the nation's airlines in its mad scramble to enter the jet age.

Development costs of the new airliner cut profits substantially last year to \$4.01 per share from \$5.49 despite a sizeable increase in sales. Since revenues will decline in 1959 and costs of the new programs are still not completely absorbed, a further earnings decline can be expected this year. After that, however, a new uptrend could establish itself, providing the company's major projects are not rendered obsolete by new developments.

High on the list of companies geared to the new age is **North American Aviation**, but it has not lived up to its promise thus far. Recently the company moved to acquire Foster Wheeler in order to solidify its growing position in the nuclear energy field. In the missile programs, North American is a primary producer of engines for several major rockets; it is also a prime manufacturer of automatic navigation systems, as well as an important producer of fighter planes. In addition, the aforementioned B-70 Valkyrie bomber is destined to

become the nation's number one manned defense weapon in the transitional period between manned flight and the true missile age. Significantly, North American designed and produced the X-15, the aircraft which sometime this summer is scheduled to carry a pilot 100 miles above the earth — man's first attempt to personally scrape the stars.

As old programs faded, and new ones failed to reach full production, the company's sales and earnings slid sharply last year. Sales dropped to \$904 million, ending the company's brief stay in the billion dollar class and per share profits declined to \$3.34 compared with \$4.23 a year earlier. In the current year, sales could resume their upward trend, although the peak of two years ago will probably not be reached. Nevertheless, earnings have already shown improvement, indicating a possible \$4.00 per share for the full year ending September 30, 1959.

Branching Out

One curious aspect of the aircraft industry picture today, is the fact that competition is not confined to the aircraft companies. Since electronics and fuels are such vital components of the new technology, chemical companies and electronics manufacturers have received many primary contracts that might otherwise have gone to aircraft companies. Moreover, the list of these "outsiders" is impressive. It includes General Electric, Goodyear Tire & Rubber, Firestone, Philco, General Telephone & Electronics, Minneapolis-Honeywell, Westinghouse, Hercules Powder, Bendix, Eastman Kodak, and scores of others.

In defense, many of the aircraft companies have begun some branching out of their own. Martin has become a major electronics contractor, and has already had merger talks with General Precision Equipment. **Lockheed**, however, has taken another approach. Always a major aircraft producer, and important in missilery despite its unfortunate experience with the ill-fated Vanguard project, the company recently acquired Pudget Sound Bridge & Dredging Co., a shipbuilding company on the west



In more than 250 Flying Boxcar-loads...

OHIO OIL AIRLIFTS A DRILLING RIG INTO THE GUATEMALAN JUNGLE

Deep in the roadless interior of Guatemala a drilling rig is "making hole" today in an exploratory well. Piece by piece, the 142-foot derrick, draw-works, pipe, and tons of supplies were flown over impassable terrain to a landing strip carved from the dense rain forest. A good prospect geologically, this venture by

Ohio Oil and associates faces the same long odds that confront the search for oil in all rank wildcat territory.

Rigging a jungle well by air is one of the more spectacular achievements of the first quarter of 1959—a period during which The Ohio Oil Company recorded these results:

Statement of consolidated income	Three months ended March 31	
	1959	1958
Net Sales and Other Income	\$75,165,104	\$71,861,976
Cost of Sales and Expenses (Exclusive of charges set forth below)	55,948,899	54,627,835
Depletion, Depreciation and Amortization	6,330,410	6,195,097
Provision for Federal Income Tax	2,687,982	2,670,705
Net income for the period	\$10,197,813	\$8,368,339
Net Income Per Share Common Stock	\$.78	\$.64
Shares of Common Stock Outstanding	13,126,753	13,126,753
Cash Dividends Paid—Per Share	\$.40	\$.40
Net Crude Oil and Natural Gas		
Liquids Produced—Barrels	10,084,000	8,863,000
Crude Oil Processed at Refinery—Barrels	4,077,000	3,878,000
Subject to adjustment by independent public accountants upon completion of year-end audit.		



THE OHIO OIL COMPANY

Findlay, Ohio

Producers • Transporters • Refiners
Marketers of MARATHON Petroleum Products

On May 5, 1959, the Board of Directors declared a dividend of 40 cents per share on common stock, payable June 10, 1959, to shareholders of record May 15, 1959

coast. The new subsidiary is small, but it gives Lockheed the facilities and know-how to bid against General Dynamics and others for advanced submarine contracts. Thus, the company, which has already successfully invaded the electronics field, is opening up a major new area of earning power.

Last year, thanks to missile and electronics business, Lockheed's sales climbed to \$962 million from \$868 the year before. Significantly, over 30 percent of revenues stemmed from these new fields. Moreover, the trend will become even more pronounced in the future, since only 43 percent of the company's \$1 billion-plus backlog is for conventional aircraft. Earnings climbed to \$2.94 last year, the highest since 1954. By year end they could attain a new peak.

McDonnell Aircraft, a major designer and manufacturer of naval aircraft has also begun branching out. Two years ago, the company got a start in the missile program by building one of the few facilities in the country capable of testing metals and components at temperatures comparable to those attainable in space flights. As a result of its pioneer work in the field, the company was recently named primary contractor for "Project Mercury", the program that will place our first man in orbit around the earth. Profits from this project may be limited for some time, but it appears that McDonnell will become an established leader in the vast new field of human space exploration.

On a more mundane level, however, McDonnell is also reaping good profits from its existing programs. Several fighter contracts, including the famous "Voodoo" are on their way out, but production of the F4H navy fighter is moving into high gear. In addition, the company is an important member of the Talos missile team headed by Bendix Aviation, and the prime contractor on the Green Quill decoy missile.

Sales this year should match 1958's \$442 million, but with a more profitable profit mix and fewer write-offs, earnings could climb well above \$7.25 per share.

The rapidly changing defense picture has obviously reshuffled

the relative positions of many of the companies in the aircraft industry. While Martin, McDonnell, North American and General Dynamics can look ahead to higher sales, the well established **Douglas** will suffer a sharp setback this year.

Though active in several missile programs including the Thor, Honest John and Nike, Douglas' principal revenues still derive from aircraft, and these programs will slide in the year ahead. Full scale deliveries of its new jets airliners will not begin until the third quarter of the year, too late to take up the slack from a declining military program. Sales in the first quarter fell to \$227 million from \$312 million in the same period a year ago, and it is unlikely that full year revenues will reach \$900 million compared with \$1,200 million in 1958. With heavy write-offs still ahead, moreover, the \$1.10 per share deficit in the first quarter should keynote the year. Douglas may have its first unprofitable year in many many years.

By 1960, the company's outlook will begin to brighten, however, indicating that the current \$2.00 dividend may probably be maintained.

Summary

The lesson from Douglas' experience is obvious to all sound investors, however. In the space age there is no sure road to profits. A commanding position in one field affords no guarantees, since the nature of the new technology makes research and development a wide open field for companies in many different industries. Thus, although overall expenditures for aircraft, missiles and electronics will undoubtedly remain high, a larger and larger number of outside companies will be seeking a piece of the pie. Grumman, Republic Aviation and Fairchild Engine have already been displaced in importance by electronics companies. The wary investor will watch closely for other potential casualties lest he be caught with his proverbial pants down, while his eyes are scanning the outer reaches of space. **END**

Airlines Destination: Profits

(Continued from page 282)

high of around \$2.85. American was forced to add to its capital structure to finance the new planes, and it is estimated that the new issue of convertible debentures poses a potential dilution of around 14% on the present stock, on top of a potential 6% dilution from the presently outstanding preferred. At a current price near 30, the common is selling at about 10.5 times estimated 1959 earnings and appears rather fully valued at this time. The \$1.00 dividend provides a modest 3.3% yield.

Braniff Airways is in the enviable position of being able to finance its new equipment from previously arranged loans plus a healthy amount of working capital. Revenues are currently running about 18% ahead of 1958, with first quarter earnings of 32¢ per share estimated versus 14¢ last year in the same period. Full year results are estimated at near the \$1.20 level. This aggressive line has expanded its volume nearly 50% in the last three years, and while there is increasing competition on its Latin-American runs, the projected 25% increase in 1959 profits seems attainable. Load factors are up 5% above comparable 1958 levels. At a current price of around 15, which is about 11 times projected 1959 earnings, the stock does not appear undervalued although it is felt to have a growth potential somewhat above average. The current 60¢ dividend will probably remain unchanged due to the need to preserve cash. The present yield is 4.0%.

The first quarter for **Capital Airlines** has not been good since 1952, and although the company lost less money in the period this year than last, when a deficit of \$1.61 was reported, a \$1.03 loss showed up when results were tallied. The period saw revenues up some 13% from last year, however, and 1959 operations are expected to show a fair profit. The company is not in very good financial shape, and is presently negotiating for a moratorium on its Viscount payments; coupled

with this is the need for equity financing to provide cash to pay for the new jet planes to be delivered in 1960. Assuming that American Airlines does not make wider inroads in Capital's traffic, the stock at around 10 seems to have *speculative* appeal assuming that the financial troubles can be ironed out. There is very little likelihood that shareholders will receive dividends for some time. If a steel strike develops, second quarter earnings could be somewhat less than expected.

With **Delta Airlines'** chief competitor, Eastern, hit by a strike in the March quarter, earnings for the period were up to 66¢ versus 4¢ in the 1958 quarter. The company is on a June fiscal year basis; with \$2.89 already earned for the first three quarters, fiscal 1959 results of around \$3.50 seem possible. Last year was one of the worst in Delta's history; 1959 could be one of its best. A recently negotiated loan of \$60 million obviates the need for equity financing at present. With business improved, a dividend is again being paid. Despite the fact that the stock has had a good runup within recent months, at a current price around 33 we would be inclined to stick with it. The present price/earnings ratio does not seem excessive, approximately 10.5 to 1, and there is a solid book value of some \$32 behind each share.

Despite the fact that **Eastern Air Lines** had a reported profit of \$2.34 last year, 26% off 1957 levels, in actuality the company operated at a deficit, hiding behind revised accounting procedures in connection with equipment amortization. At present, however, things look brighter and in the first quarter results of 69¢ per share were posted. For the full year earnings are expected to show a good increase over 1958. To pay for its new jets, the line has negotiated the sale of some \$25 million in convertible notes; these notes may be converted at a price of \$41, and the shareholder must be aware that the issues poses a potential 21% dilution. Nevertheless, the company's debt ratio is reasonably modest. At a recent price of around 40 the common stock is selling at around 9.1 times estimated earnings and carries a dividend which yields a very mod-

AMERICAN & FOREIGN POWER COMPANY INC.

Report for 1958

GOOD
CITIZENSHIP
means
GOOD BUSINESS
in
LATIN
AMERICA

Electric energy sales and customers served by associated companies of the American & Foreign Power Company System in 10 Latin American nations reached all-time highs during 1958, up 7% and 6% respectively. System generating capacity additions of 175,500 kw during 1958 were the largest for any year in the 35-year history of the System.

As one of the largest investors of private capital in Latin America, the Company again in 1958 provided an example of the vital contributions which private enterprise is making to the development of the area. In addition to the main task of providing an ample and efficient supply of power, Foreign Power System companies made a number of major contributions during 1958 to the economies of the countries served, including the following:

\$69,274,000 in salaries and employee benefits.

\$33,700,000 for fuel and supplies.

\$20,800,000 in taxes paid to national and local governments outside the United States.

\$30,763,000 put back into the service areas by American & Foreign Power Company.

American & Foreign Power Company is convinced that *good citizenship* means *good business* in Latin America. It believes that its programs for expansion of electric facilities and development of its service areas not only will produce direct benefits for its security holders, but also will help to provide profitable investment opportunities for both domestic and foreign capital, thus contributing further to the strengthening of the social and economic well-being of the "good-partner" republics.

HIGHLIGHTS FROM OUR 1958 ANNUAL REPORT

	1958	1957
Corporate Net Income	\$12,553,000	\$12,577,000
Earnings Per Share	\$ 1.72	\$ 1.72
Common Dividends Per Share	\$ 1.00	\$.95
Electric Energy Sales—MKWH	7,538,938	7,024,963
Electric Customers	2,797,000	2,631,000
Construction Expenditures	\$86,200,000	\$88,200,000
Installed Capacity—KW	1,516,000	1,344,000

If you would like a copy of our 1958 Annual Report, write H. W. Balgooyen, Executive Vice President and Secretary of the Company.



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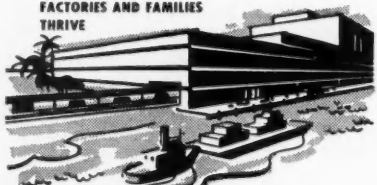


DIVIDEND NOTICE

FLORIDA POWER & LIGHT COMPANY

A quarterly cash dividend of 22¢ per share has been declared on 13,200,000 shares of Common Stock of the Company, which includes 6,600,000 shares now issued and outstanding plus 6,600,000 shares to be issued on June 1, 1959, as a result of a stockholder approved two-for-one stock split. The dividend is payable on June 23, 1959, to stockholders of record at the close of business on May 21, 1959. The record date fixed for stockholders entitled to receive additional shares as a result of the stock split is May 21, 1959.

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P. O. BOX 3100, MIAMI 1, FLA.

Robert H. Fite
President

RIO GRANDE VALLEY GAS COMPANY

Brownsville, Texas

DIVIDEND No. 41

The Board of Directors has declared a Quarterly dividend of four cents per share on the outstanding common stock of this corporation payable June 15, 1959 to stockholders of record at the close of business May 15, 1959.

W. H. Meredith
Treasurer

May 4, 1959

est 2.4%. The stock appears attractive, however, on the basis of the probability of higher earnings being generated by the jets, and among the various airline equities seems to offer relatively interesting potential.

National Airlines is also on a June fiscal year basis, and with 98¢ being earned in the March quarter for a nine month total of \$1.42, full fiscal results near \$2.20 seem possible. National is the seventh largest domestic carrier and the company has a stake in the heavily travelled and profitable New York to Miami route. Moving in what seems to be the right direction, the line will cut some night-coach fares, which should help generate additional traffic. The stock is currently selling at around 10.2 times estimated earnings, and at about 23 does not seem overpriced despite the fact that shareholders receive stock dividends only. Of interest to note is that Pan American holds some 36% of National's stock, and a merger in the future remains a possibility. Furthermore, National is contending for the Southern transcontinental route which could add important mileage to its routes.

Northwest Airlines is the smallest of the transcontinental carriers but has an important stake in the routes linking the West Coast with the Pacific. Since 1951 Northwest has suffered from an unbroken succession of miserable first quarters; this March, however, the loss was much smaller than usual, amounting to a deficit of only 4¢ versus a 60¢ debit in the 1958 period. Volume picked up some 50% in the period. 1958, on balance, was an excellent year for the company and we feel that 1959 could likewise be a record-breaker, with

earnings of \$4.25 projected for the year. On this basis, the stock at 38 is selling at only 8.7 times estimated earnings, and there is a likelihood that the dividend will be increased. Stockholders should be aware, however, that the new convertible preferred poses a 24% dilution. The line may benefit from an anticipated favorable decision involving competition with BOAC, and still have speculative merit.

Strictly speaking, Pan American is in a different class from the lines previously discussed. This large transportation enterprise operates on international routes only, and because it is flying jets on its transatlantic runs the company has for at least the present a strong competitive advantage. 1958 saw earnings off from year earlier levels, but with current volume up, results this year could show a good improvement. The outlook for the next few years is somewhat less certain however. Soon PanAm's competitors will also be flying jets and it would appear that the company's share of the transoceanic revenues might diminish. Furthermore, the stock has climbed considerably in the past year and at a present price of around 30 is selling at 16.2 times estimated 1959 earnings. The dividend is small, and it would appear that at current levels the stock is overvalued. For this reason, new commitments do not seem justified at this time.

The nation's fourth largest line, Trans World Airlines, was hit by an expensive strike in the fourth quarter of last year that dropped the company into the red by 26¢ for 1958. Current operations are somewhat more profitable though, with the first quarter deficit, a not unusual occurrence, of 57¢ being more than a 60% improvement over the 1958 quarter loss. 1959 is shaping up well, however, and for the year earnings could near the \$1.25 level. The stock has had a fairly good move in the last year, in anticipation of these improved results, and despite a brighter outlook for years ahead it continues to be speculative. At a current price of 21 it is selling at 17 times projected 1959 earnings and there appears little likelihood that a dividend will be paid in the near future.

149TH DIVIDEND

CIT
FINANCIAL
CORPORATION

• A quarterly dividend at the
• increased rate of \$0.65 per
• share in cash has been de-
• clared on the Common Stock
• of C. I. T. FINANCIAL COR-
• PORATION, payable July 1,
• 1959, to stockholders of re-
• cord at the close of business
• June 10, 1959. The transfer
• books will not close. Checks
• will be mailed.

C. JOHN KUHN,
Treasurer
May 4, 1959.

Non-recurring factors entered into the record earnings that **United Air Lines** boasted last year, namely revised depreciation charges and strikes that hit the company's competitors. No equity financing has been needed to pay for the new jets expected to be placed in operation by Fall, and earnings for the year should come close to matching 1958's \$3.88. The line serves heavily travelled routes, and it has a good record of revenue increases. Despite the fact that the relatively modest dividend provides a small yield, the stock appears attractive at around 38 which is only 9.4 times estimated 1959 earnings.

Western Airlines, operates primarily along routes in the west, and while operating revenues in 1958 were off, indications are that earnings this year could nudge \$3.60. Route mileage has been increased, and the company will have the benefit of turbo-jet aircraft before very long. The stock has not had as much of a runup as certain other equities, and is currently selling at 9.5 times projected 1959 earnings at a price of around 33. The stock appears reasonably valued on this basis, although not dynamic. END

Companies With Valuable Interests In Other Companies

(Continued from page 262)

Western may be used only to shore up the nearly marginal operations of the parent, while McIntyre Porcupine could divert its large investment income entirely to exploration for new mineral reserves. In fact, unless a company with outside holdings is purely an investment trust, it must be expected that its dividend income will be subject to any corporate requirements of its own. More succinctly, an indirect interest is not the equivalent of direct ownership, but is necessarily accompanied by some inconveniences and a dilution of control. Carefully selected outside holdings should, however, strengthen the parent corporation, contribute diversification, and may provide the long-range investor with a means of acquiring good stocks at a discount.

END

Is Gold Crisis For The United States Now Inevitable?

(Continued from page 258)

Also, the low level of cotton exports in the first quarter of 1959 represented a running down of foreign inventories in anticipation of lower prices and better terms on the new crop; our cotton shipments abroad should rise substantially in the latter half of the year. On the other hand, reports have it that the Soviet Union is nearing completion of an oil pipeline to the Baltic, so our oil will be meeting increased competition in the future.

In any case, no one can talk to American business men without hearing concern expressed about the loss of our positions in foreign markets. The men who sell to foreign buyers are shrewd businessmen and their uneasiness is not to be lightly disregarded. Their view is that it will take hard work and competitive prices to retain and recover markets for American wares.

This loss of U. S. competitive positions abroad ought to be one of the considerations right in the middle of the bargaining table at the steel industry wage negotiations. Foreign-made wire is not only competitive with U. S. wire in world markets; it is invading the U. S. market where it can be sold cheaper than the domestic product. The steel workers, already among the highest paid in the U. S., will gain no advantage if they raise wages but lose jobs to foreign labor. Management might also ponder whether the fat profit margins enjoyed by the industry—which permitted profits at 50% of capacity last year—are not more than can be afforded in the face of lean and hungry foreign competition.

Meanwhile, imports have tended to crowd up and exhaust the shrinking export earnings. As Table II shows, the U. S. export surplus fell from \$1.8 billion in 1957's first quarter to \$900 million in the first quarter of 1958 and only \$300 million in 1959.

Thus, we no longer have the trade surplus cushion we depended on for so long to cover loans abroad, foreign investments, and government aid programs. But these outlays, plus U. S. military

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**U
C
B** **UNITED CARBON
COMPANY**
CHARLESTON,
WEST VIRGINIA

DIVIDEND NOTICE

A quarterly dividend of fifty (50¢) cents per share has been declared on the Common Stock of this Company, payable June 10, 1959, to shareowners of record of close of business on May 23, 1959.

C. H. McHENRY
Secretary

PHELPS DODGE CORPORATION

The Board of Directors has declared a second-quarter dividend of Seventy-five Cents (75¢) per share on the capital stock of this Corporation, payable June 10, 1959 to stockholders of record May 22, 1959.

M. W. URQUHART,
Treasurer.

May 7, 1959

For A Revealing Study of the
Public Utilities
See our Issue of June 6, 1959

spending abroad, continue in undiminished volume, supplying additional dollars which foreigners are at liberty to convert into gold if they wish.

Cut Back Foreign Aid?

Foreign nations are expected to obtain from the U. S. more than \$3.3 billion net in 1959. As the full year section of Table II shows, this is even more than they received in 1958. The all-important question is what they do with these dollar earnings. *If they decide to take another \$2.3 billion gold, as they did in 1958, we shall be in for trouble.* The gold drain cannot continue at this rate without setting up psychological expectations of devaluation which will in turn serve to accelerate the gold outflow.

If foreigners insist on taking gold for their dollar receipts, *the only way to protect our gold reserve and still maintain the standing of the dollar in world currency markets may be to cut sharply back on U. S. Government military and aid outlays abroad.* As Table II indicates, total U. S. Government disbursements abroad—military outlays, economic aid and loans and grants—have been running around \$6 billion a year in each of the past three years. Halving this total would put our balance of payments back on a self-sustaining basis.

But this would be drastic medicine, risking dislocation of established trade relationships as well as threatening the system of mutual defense we have built up. From the point of view of both the United States and the rest of the world, *the better solution is for foreign nations to be willing to hold the greater proportion of their reserves in dollars, reduce barriers to American exports and rely more heavily on London, Frankfurt and Zurich rather than New York for capital borrowings.*

Meanwhile, the U. S. will have an obligation to hold down costs and prices to keep its goods competitive in world markets and to curtail Federal Government expenditures, to dissipate foreign fears that we are embarked on a course of fiscal irresponsibility. There is no limit to the improvement in living standards we can

have if we get our financial house in order and make our international currency arrangements work. If the gold drain serves to alert us to these necessities, it will be worth the concern it is causing. END

Good Cheer For The Distillers In 1959?

(Continued from page 285)

for it was this firm that led the fight which culminated in the victorious changes in the inequitable bonding law. The company is believed to be the largest domestic distiller, accounting for over 20% of the industry total. Schenley manufactures and markets a very wide line of products under more than a hundred brand names. The company has a very large inventory of aged whiskey which should add importantly to sales volume especially considering the trend towards the premium liquors which are now taking some 50% of domestically-produced sales. In short, Schenley, as one of the Big-Four has an excellent trade position and is a strong contender for 1959 honors within the industry.

The outlook for the company is favorable, and all signs point towards a continuation of the improved earnings trend which has been exhibited since 1954. In 1958 per share results of \$2.63 (based on the presently outstanding stock) were tallied. This fiscal year, which ends in August, should see earnings near the \$3.00 level or possibly a shade better. Sales could improve from \$497.5 million last year to perhaps the \$515 million area in 1959. At a current price of 36 the stock is selling at only 12 times projected results. The \$1.00 dividend provides a yield of less than 3.0%, but there is some possibility of an increase in the payout. With a period of greater prosperity ahead, Schenley appears somewhat undervalued at this time and the stock is felt to have attraction.

Hiram Walker is the leading Canadian distiller with important facilities in this country as well. The company has a good line

which includes Canadian Club, Ballantine's and Old Smuggler, Imperial, Corby's, and Seven Star. Although the company has not diversified, its past record is good considering most of the rest of the group. In fiscal 1958, ended August 31st, earnings per share were \$2.54, lower on balance from the preceding year due to generally poorer conditions.

Indications are that for this fiscal year earnings may hit \$2.70 per share, a level not attained in some time. At a current price of 35, the stock is selling at 12.9 these estimated results which does not appear out of line. The \$1.40 dividend provides a relatively satisfactory yield close to 4%. Although the stock does not appear to be undervalued, we would be inclined to maintain present commitments confining new purchases to previously mentioned issues, with perhaps a switch from Walker into Schenley being advisable. END

Outlook For International Oils

(Continued from page 265)

issue at stake in the struggle over profit participation in integrated operations. And the reason why the international companies are so strongly opposed to letting producing countries share in the proceeds from these operations is not so much the amount involved as their understandable reluctance to widen the producing countries' control over the world oil industry.

New Refineries Stymied

The same reason lies behind their unwillingness to build additional refineries in the Middle East. The postwar trend to build refineries in the consuming centers rather than in the producing centers is founded upon the sound strategic principle of spreading the risks. The Arab world exerts already a tremendous influence on the world oil business by virtue of the fact that its subsoil contains the bulk of the world's known oil reserves. If it should also contain a large part of the world's refining capacity, its control would be almost absolute.

All-Arab Pipeline Project

The request for an all-Arab pipeline network is currently under study and it is quite possible that something will come of this idea. This was indicated in a recent speech by Mr. Howard W. Page, a Jersey director. The proposal, as stated at Cairo, is meant to cover only *additional* pipeline needs and, thus, will not compete with the existing Middle East pipelines nor with the Suez Canal. How soon the project will materialize and how big it will be depends mainly on such economic factors as the future oil needs of the Eastern hemisphere and the future supply from producing centers, other than the Middle East, particularly the Sahara and Libya which five years hence may be the Middle East's major competitors in supplying Western Europe.

The Objective of Cairo Conference

The Cairo Congress has given the Arab oil countries a forum for voicing their grievances. But it may also have provided a means for more favorable consideration of them on the part of the oil companies. For most Arab delegates were agreed on one thing: they must represent a solid front if they are going to be successful in their dealings with the big international oil companies. The Arab Oil Congress was their first real attempt at consolidating their views and speaking with a single voice. It was by no means a complete success. But it is planned to hold similar congresses every year from now on. If out of these meetings a united Arab oil policy should emerge, the oil companies would have little choice but to heed it—provided it remains within the bounds of reasonableness.

What About Iraq?

Now let us take a look at the one major Arab country which so conspicuously abstained from the Cairo meeting—Iraq. At the moment Iraq is somewhat like a diver who has still one foot on the diving board. It has not yet taken the final plunge into Communism, but it is precariously close to it and every day it is getting still closer. It is said—and

probably correctly — that Prime Minister Kassim himself is not a Communist. But the Soviet world empire is full of satellites whose last pre-communist leader only wanted to "collaborate" with the Soviet Union without giving up his independence. If and when Iraq does go completely Communist it will be known by one simple indication: the execution of Col. Aref and of the condemned monarchist leaders. All of these were sentenced to death several months ago and the Communists are loudly clamoring for their immediate execution. So far, Kassim has managed to stave it off for the sole reason that Col. Aref is considered a national hero in most of the Arab world, while the monarchist ministers have many good friends in the West. To kill them would therefore stir up strong anti-Iraqi feelings not only in Cairo but also in London and Washington. If and when the Iraqi government is willing, or forced, to risk such further antagonism abroad, the condemned men will die and Iraq will have crossed the threshold to Moscow.

Iraq—the Oil Giants—and Russia

How would this affect the world oil industry? Iraq is one of the Middle East's big four. Its current production of more than 800,000 barrels daily accounts for some twenty per cent of the Middle East's total output. However, Iraq's reserves are large enough to produce at twice this rate. At present, the government in Iraq is extremely careful not to become involved in any dispute with the Iraq Petroleum Company which is British-French-U. S. owned (the 24 per cent U. S. share being held jointly by Jersey and Socony Mobil). This is in marked contrast to its treatment of other Western business firms in Iraq. For example, it has cancelled the contract of Ebasco Services, Inc. of New York which was one of the Iraqi Development Board's consulting engineers. It has also ended the services of the Ralph M. Parsons Co. of Los Angeles and several British concerns. In all cases, the cancelled contracts will be picked up by Soviet concerns, since under a recent \$140-million loan agreement with the USSR, the Soviet Union received specific

rights to help draft the country's future development plans.

In the oil industry, too, the Soviets will soon be a factor in Iraq. For the areas which the I.P.C. has recently returned to Iraq, at Kassim's specific request, will soon be developed by Soviet oil technicians. *This will give the Russians their first foothold in the Middle East's oil. Yet, this does not mean that the Western-owned company is about to be nationalized or turned over to the Russians.*

The Oil Revenue Dilemma

Iraq is fully aware of the large and growing world crude oil surplus which today could make up for the loss of Iraq's oil production without the slightest difficulty. The Iraqis also know that at the moment they could not find another outlet for their oil except in the West and that the West would not buy from them if they nationalized their oil industry. Thus, their chief source of income—\$225 million last year—plus the employment of several thousand people would stop if they took any drastic action against I.P.C.

Of course, this does not mean that the Western owners of I.P.C. have nothing to worry about if Iraq goes communist. In the first place, economic considerations have very frequently been second to emotional considerations in the Middle East. To a Communist government a Western oil company would be a continuous target of abuse and accusations. In the longer run this would tend to make its operations so difficult that it would probably be forced out, just as the foreign oil companies were forced out of Rumania and Hungary within a couple of years after the Communists had taken over in these countries.

New Outlets Via Persian Gulf Pipeline

What would Iraq do with its oil in that case? For one thing it may try to sell it in the West by means of dumping methods. It would probably not find too many customers. However, it would be able to sell some of its oil and undermine the stability of the world crude oil market.

Another possibility mentioned is the sale of Iraqi oil by the

Soviet oil export trust. This organization has established market outlets in a number of non-Communist countries and would probably be in a position to help market some Iraqi oil.

Finally, rapidly growing trade relations are developing between Iraq and Communist China, a nation which is short of oil. At present, Iraq could not supply China even if it wanted to, since nearly all its oil is shipped by pipeline to the Mediterranean. However, a major pipeline system to the Persian Gulf is now under construction. When it is completed, the supply of areas east of Suez will be much easier for Iraq than at present.

Conclusion

The present correct relations between the Iraq Petroleum Company and the Iraqi government must therefore be taken for no more than what they are: a temporary holding operation. A communist-dominated Iraq can not permanently tolerate a situation where its major industry is in the hands of Western capitalists. *Thus, the future of Iraq Petroleum is a matter of world politics rather than industry negotiations.* If Iraq oil is lost to the West, the immediate victim, economically speaking, would be Iraq and not the West. But by giving the Soviet Union a foothold in the very center of the Persian Gulf oil fields, all Middle East oil would be less secure for the West. END

Dynamic West Germany

(Continued from page 271)

the first three months of this year however, clearly point to better prospects for this industry. Inventories also must be replenished. One of the factors brightening the outlook has been the steel shipped to United States companies who have been stockpiling to guard against a steel strike.

One of the new problems whose impact must yet be assessed is the competition from French steel. The recent devaluation of the French franc has suddenly made French steel highly competitive. Hustling French salesmen are taking full advantage of this.

TEXTILES—Production dropped about 6 per cent below 1957 levels last year, *mainly because of foreign competition from countries with cheaper labor costs.* As a result, the industry has started a drive for government help. Some workers have been dismissed and others have been put on a shorter work week.

The crisis in this industry bears some resemblance to that in the United States which is fighting cheap Japanese textile imports.

The government appears to be willing to step in with emergency help but does not seem to be ready to embark on the large-scale assistance it has provided the coal industry. Low interest credits for the hardest hit factories seem certain along with some government subsidies. The biggest help, however, is the prospect of negotiating agreements with foreign countries for voluntary restrictions on their textile exports to Germany.

As a heavily industrialized nation with millions of relatively high paid skilled workmen, Germany is finding hotter competition for overseas markets in the past year. Italian, French and Japanese salesmen particularly have been active in areas where the Germans found clear sailing in the past, especially in the less developed countries.

Germany's big assets, however, remain the high quality of its production, plus its ability to deliver on time. In the past two years, its labor force has swelled to almost 19 million wage and salary earners. *In this time the output per worker-hour, using 1950 as 100, has climbed from 139 to 157.* Workers generally average about 45 hours per week at a wage rate of 2.32 deutsche Mark an hour (about 50 cents.)

Unemployment has fallen to about 650,000 according to the latest statistics. Most of these are unskilled, many of them refugees, and the labor market is considered "tight."

Services

The over-all prosperity in the country is reflected in the astounding growth of the industries dealing in personal services. With more money in his pocket, the German workmen are looking around for new ways to spend it.

This has accounted for record increases in such industrial outlets as dry-cleaners, laundries, hair dressers and tourism. Movie exhibitors, however, have reported a drop in business, probably due to the increasing popularity of television.

Production of all electrical appliances has soared. But none has climbed like that of TV sets. Some 1,800,000 are expected to be turned out this year compared with 1,400,000 in 1957. In keeping with the accent on foreign trade, about 300,000 sets will be exported during the year.

Foreign trade registered a record surplus of \$1.4 billion in 1957—some \$400,000,000 more than the previous year. Total exports soared to \$8.8 billion, bettering 1957's mark by 2.7 per cent. This by German standards was a modest increase but the important point is that it was an increase at the time when many other nations saw their trade fall off.

German imports, on the other hand, dropped to \$7.4 billion, nearly 2 per cent below the previous year's total. The big cut in American coal imports was a factor in this drop.

Even with the reduction in American coal imports, the final figures showed that the United States again ranked as Germany's major foreign supplier. Imports of American goods amounted to \$1,200,000,000 during a period when the Germans sold \$579,000,000 in their own products on the American market.

The trend during 1959 indicates that there will be more German finished industrial products sold overseas than raw materials. This trend showed up last year for the first time and it is expected to move even more in that direction.

An increasingly noticeable pattern of more exports to less developed countries is also evident in the first few months of 1959. This probably will be accompanied by a slight decrease in such exports to the more industrialized nations.

But when the final statistics for the year are totaled, the record seems certain to add up to another banner year for German industry and trade END

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First Quarter Reports

(Continued from page 279)

Olin Mathieson, after a disastrously poor year in 1958 started the new year on the right foot. Late in 1958, the company decided to make the worst of a bad year and wrote off its investment in exotic fuels and a good part of its participation in the Ormet Co., a partially owned subsidiary in the aluminum field.

With these extraordinary costs now largely in the past, Olin entered the new year with a clean slate.

Sales rose smartly to \$159.9 million in the first quarter compared with only \$127.6 million a year ago, and net income rose to 48¢ from 33¢ per share. As the year progresses, however, comparisons should improve, since some residues of the write-offs were still left in the first quarter.

Summary

Here and there is evidence of trouble, but in general, corporations turned in superior performances in the first quarter. Among the exceptions were the major can companies, such as **Continental** and **American Can**. American managed to score a small earnings rise by instituting a new pricing method that caught the industry by surprise, but Continental reported a drop in per share net to 49¢ from 60¢. In general, however, both companies are suffering from new competition from within their industry and without. Of especial significance, is the fact that many former customer are now producing their own can requirements.

Otherwise, the signs of resurgence abound in the land. For the future, however, the outlook will depend on more than just business astuteness. A recent poll of steelworkers by a leading independent agency indicated that steelworkers are not necessarily in accord with their leaders demands for higher wages. According to the poll, even the workers are fed up with the constant wage-price spiral. Under the circumstances, the government may find it easier to stiffen its back and prevent some of the more odious results of a disastrous

strike. In addition, action to curb the abusive powers of a few privileged union bosses may again be placed on the agenda.

We offer no panaceas, but we do know that business has done more than its share to put the country's best foot forward. It is time for a real assist from the congress and other official agencies. END

The Trend of Events

(Continued from page 252)

unfounded rumor that, like **Italo-Suisse**, a certain company was about to build a pipeline, the price soared into the stratosphere. When a Luxembourg agency predicted that **Motor-Columbus**, a Swiss holding company, would "jump sensationally", the price rose to dazzling heights merely on the prediction.

And the same thing can be cited over and over again in a large number of their domestic issues—with American stocks also in sharp demand, but with Zurich prices higher and above the New York market.

The situation is clearly out of hand, and, like all "bubbles", when it bursts the price exacted will be enormous. In the meantime, swindlers are having a field day. END

For Profit And Income

(Continued from page 287)

Machine, New York Shipbuilding, **Armco Steel**, **American Smelting**, **Bethlehem Steel**, **Carrier Corp.**, **Food Fair Stores**, **Magma Copper**, **Sun Oil**, and **U. S. Steel**.

Textiles

The recovery in the textile industry has recently gained in vigor, in terms of mill orders and selling prices. The 1959 profits of most manufacturers will be the best in several years; and dividends, already raised in a couple of instances, should be at a materially higher level by the year end. Stocks which do not yet look extreme on 1959 estimated earnings include **American Enka** around 33, **American Viscose** at 49, **Celanese** at 32 and **Lowenstein** around 17.

Turn For Better

Due to curbs on oil imports and

prospective moderate-rate growth of the U. S. consuming market, domestic oil well drilling is now more active than in some time. While not dynamic, the implications are favorable for the oil-field supply companies. The two leaders specializing in this business are **Dresser Industries** and **Halliburton Oil Well Cementing**. Net of **Dresser** fell to \$2.14 a share in the year ended last October 31, from the prior year's record \$4.60. It might be around \$2.80 to \$3.00 this year. At 39½, the stock is well down in its 1957-1959 range of 57¾-33. **Halliburton** had peak net of \$5.00 a share in 1956. It was down to \$3.38 in 1958 and might be around \$3.90-\$4.10 this year. At 68, up from 1959 low of 58 and 1958 low of 49½, the stock apparently has made its turn but remains well under 1956 high of 92. It is on a \$2.40 dividend, against \$2.00 for **Dresser**. Both stocks are priced within reason and should work higher.

Seasonal Rise

You will soon be hearing the usual hoopla about the seasonal summer rise, as figured from the May closing levels of the industrial and rail averages to the July or August highs, whichever are higher. Actually, you can show a rise in more years than not from the close of any month to the high of the second or third following month. The bias is that way because, on average, bull markets last longer and go farther than bear markets. For what it is worth — and that is not a great deal — May has brought some gain in the industrial average in 32 of 62 years since 1897, June in 33 years, July in 43 years, August in 40 years. END

Answers to Inquiries

(Continued from page 294)

setz Lumber Co. In the same 9 months period last year, earnings were \$4,886,000 after estimated taxes of \$2,885,000, equal after payment of preferred dividends, to \$1.89 per share on the 2,389,926 shares of common stock outstanding.

The quarterly dividend was recently increased to 50 cents per share from 37½ cents and a year-end extra of 37½ cents was paid on April 10, 1959. END

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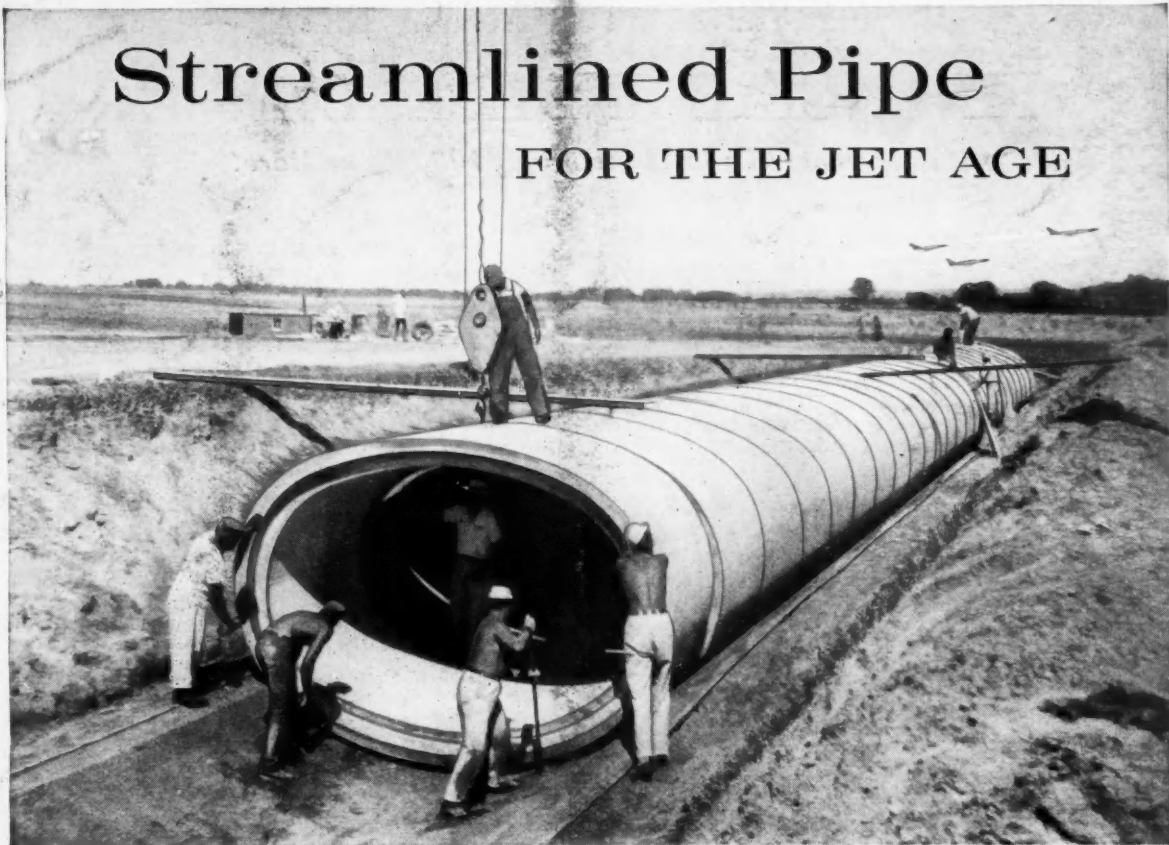
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